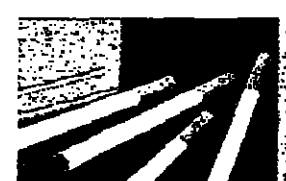


Mark Size
of liberatio



Feeling the pinch
UK industry looks
at its margins
Page 16



A long-term view
BAT does a deal
in Uzbekistan
Page 14



Getting on board
Building ships
without subsidies
Page 6



Today's surveys
Monaco
Japan
Separate sections

FINANCIAL TIMES

Europe's Business Newspaper

TUESDAY JULY 19 1994

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Bonn drops threat to ban imports of British beef

Germany has dropped threats of a unilateral ban on imports of British beef after the EU veterinary committee recommended tighter restrictions on the sale of beef which might be contaminated with bovine spongiform encephalopathy.

"There will be no unilateral action because we achieved a satisfactory solution in the agriculture council and in the veterinary committee," a spokesman for the German delegation said.

US sees end to Middle East conflict: US secretary of state Warren Christopher triumphantly said the Arab-Israeli conflict, "one of the most long standing and most intractable" of the century, was drawing to an end. He was speaking after meeting Israeli leaders on the first day of Middle East diplomatic talks. Page 16: Desert tribes meet to bury differences in the sand. Page 4

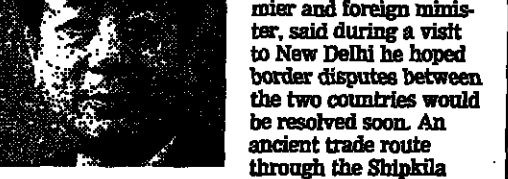
Chase Manhattan and NationsBank: two of the US's biggest commercial banks, comfortably beat market forecasts with post-tax earnings gains of 32 per cent and 43 per cent respectively in the second quarter. Page 17

Twelve die in Buenos Aires blast: At least 12 people died and 50 were injured in an explosion that ripped through the Buenos Aires offices of two Jewish organisations.

Synergene: The Colorado based company, once a star of the US biotechnology industry, has dropped research of its biggest product, Antril, and announced a restructuring of the business and its possible sale. Page 17

Canada eases internal barriers: Canadian prime minister Jean Chretien and leaders of the 10 provinces signed a long-awaited deal to ease internal trade barriers. Page 5

India and China to reopen trade route: India and China agreed to reopen an ancient trade route after 32 years, as Qian Qichen (left), China's vice-premier and foreign minister, said during a visit to New Delhi he hoped border disputes between the two countries would be resolved soon. An ancient trade route through the Shikila



Pass on the border of Kinnaur district in Himachal Pradesh was formally restored with the signing of a protocol by the two governments. Page 4

Black businessmen plan SA listings: A group of black South African businessmen plans to establish a new Bourse (S.A.1992) company and list it on the Johannesburg stock exchange next month. If successful, the company will become by far the largest black-owned and run commercial enterprise in South Africa. Page 17

Bank of Montreal: Canada's third largest bank is to pay up to C\$400m (US\$290m) in cash and shares for Burns Fry, a Toronto securities firm which is 26 per cent owned by Bank of America and 74 per cent by its employees. Page 17

Bosnia involvement 'to increase': The US and Nato can be expected to deepen their involvement in the Bosnian crisis, regardless of the fate of the peace plan which the warring parties are now considering, according to senior Western officials. Page 2

Coca-Cola: The US soft drinks group, increased net profits by 13 per cent to \$758m in the second quarter in spite of competition from private label colas in several of its biggest markets. Page 20

Call for wider IMF roles: The International Monetary Fund needed to play a larger role as a manager of the international economic system, while increasing its efforts to promote sustainable growth in former communist countries and the developing world, managing director Michel Camdessus said. Page 5

Hymn to television: A Chinese Communist party hymn written in honour of Chairman Mao Zedong has been reborn as an advertising jingle glorifying a television set. Page 16

Shipbuilding deal attacked: French shipbuilders condemned the weekend agreement on eliminating subsidies in the shipbuilding industry, claiming their competitors would benefit from indirect subsidies. Page 6

Death toll rises: The death toll from floods in parts of south, east and northeast India has risen to at least 390, the Press Trust of India reported.

STOCK MARKET INDICES			
FT-SE 100	3082.0	(+7.2)	
Yield	4.05		
FT-SE Euro Stoxx 100	1346.11	(+2.91)	
FT-SE-AF-Shares	1538.11	(+0.2%)	
Nikkei	20,717.64	(+2.51)	
New York: last trading			
Dow Jones Ind. Ave.	3763.48	(+0.32)	
S&P Composite	454.62	(+0.46)	
US LUNCHTIME RATES			
Federal Funds	4 1/4%		
3-mo Treas. Bids: Yld	4.343%		
Long Bond	7.89%		
Yield	7.89%		
LONDON MONEY			
3-mo interbank	5.12%	(same)	
Libor long gilt future	5.093% (Sep/Oct)		
NORTH SEA OIL (Aargau)			
Break 15-day (Sep)	\$17.26	(17.78)	
GOLD			
New York Comex (Aug)	\$386.2	(386.4)	
London	\$386.5	(385.2)	
STERLING			
New York: last trading	\$	1.5675	
London	\$	1.5644	(1.5688)
DM	2.4125	(2.4248)	
FF	8.2858	(8.3218)	
SFR	2.6355	(2.6448)	
Y	153.892	(152.555)	
Index	78.3	(same)	
DOLLAR			
New York: last trading	DM	1.5481	
FF	8.2858	(8.3218)	
SFR	2.6355	(2.6448)	
Y	153.892	(152.555)	
Index	78.3	(same)	
London	DM	1.5481	(1.5558)
FF	8.2858	(8.3218)	
SFR	2.6355	(2.6448)	
Y	153.892	(152.555)	
Index	78.3	(same)	
Tokyo close	Y	98.18	

Australia	202.02	Greece	105.00	Latvia	100.00	Qatar	100.00	OPR100	100.00
Belgium	100.00	Hong Kong	100.00	Malta	100.00	Saudi	100.00	SRI1	100.00
Denmark	100.00	India	100.00	Mexico	100.00	Singapore	100.00	SRI2	100.00
France	100.00	Italy	100.00	Norway	100.00	South Korea	100.00	SRI3	100.00
Germany	100.00	Japan	100.00	Poland	100.00	Spain	100.00	SRI4	100.00
Greece	100.00	Portugal	100.00	Romania	100.00	Sweden	100.00	SRI5	100.00
Hong Kong	100.00	Slovakia	100.00	Slovenia	100.00	Switzerland	100.00	SRI6	100.00
India	100.00	Taiwan	100.00	Turkey	100.00	USA	100.00	SRI7	100.00
Italy	100.00	Thailand	100.00	UK	100.00	Yemen	100.00	SRI8	100.00
Japan	100.00	USA	100.00	Yemen	100.00				
Portugal	100.00								
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Spain	100.00								
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Switzerland	100.00								
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Thailand	100.00								
Turkey	100.00								
UK	100.00								
USA	100.00								
Yemen	100.00								

UK drive to end rift within EU

By Lionel Barber in Brussels

Mr Douglas Hurd, the UK foreign secretary, yesterday launched a campaign to end Britain's recent diplomatic isolation in Europe and persuade its partners that the UK views the European Union as more than a free trade area.

In remarks aimed at breaking the stranglehold of the Conservative party's Eurosceptics on UK policy toward Europe, Mr Hurd pledged British support for a stronger common foreign and security policy, including an offer to pool sensitive political intelligence reports in Brussels.

He told EU foreign ministers in Brussels: "The European Union cannot be simply a free trade area or even a single market. We need to develop a system for constructing our foreign policy better internally, and projecting it better externally."

Mr Hurd's intervention appeared aimed in part at easing tensions with France and Germany over Britain's veto of Mr Jean-Luc Dehaene, the Belgian premier backed by Bonn and Paris for the European Commission presidency.

But it was also an effort to recoup lost ground after the row over Britain's unsuccessful campaign to maintain its power to block EU legislation once the Union expands, as planned, from 12 to 16 members.

"We need to talk less exclusively about British interests and more about Europe's interests," said a senior UK official.

Mr Hurd suggested that the EU's newly established relationship with Ukraine could serve as a trial run for a more co-ordinated foreign policy approach among the Twelve, starting with foreign ministers sharing intelligence and analysis.

There was a need for a "strategy" for relations with central and eastern Europe combining expanded trade and closer security ties leading to the ultimate goal of EU membership.

Ministers moved in this direction yesterday with the signing of free trade agreements with the Baltic states. They also welcomed a new European Commission policy paper which aims to help the East Europeans prepare for EU membership by integrating their laws and trade practices with those of the Union.

A Commission official said harmonisation of competition law, trade practices and other legisla-

Hurd urges firmer Brussels foreign policy

tion would, in effect, expand the single European market eastwards.

This would create a new market of about 450m people, including the EU, Baltic states, Slovenia, and the six countries which have concluded association agreements with the Union - Poland, Hungary, the Czech republic, Slovakia, Romania and Bulgaria.

The Commission paper also suggests that both west and east European must make radical reforms to lay the groundwork for membership. It says former communist countries should cut capacity in smokestack industries, modernise banking and promote small businesses.

Similarly, EU members need to brace themselves for changes in the hugely expensive system of farm price supports under the Common Agricultural Policy and the regional aid budget known as structural funds.

The UK is pressing this agenda, but is conscious that opening the question of CAP reform prematurely could trigger a confrontation among EU member states which would delay the expansion of membership. "The timing is crucial," said one UK official.

Meanwhile British officials believe that it might be possible to invite the east Europeans to join meetings of EU foreign ministers or interior ministers with the power to speak but not to cast a vote.

Although France and other countries were hostile to this idea two years ago, UK officials believe they might be more receptive today to the idea of "partial membership" in a "multi-speed" Europe.

Split in Italy's coalition hits stocks and lira

By David Lane in Rome

The Italian lira and the Milan stock market fell sharply yesterday as Mr Silvio Berlusconi, the prime minister, tried to prevent his right-wing coalition government splitting over a decree limiting the judiciary's powers of arrest.

The falls came despite attempts by Mr Berlusconi to play down the threat to his coalition.

The lira touched a record L1,008 low against the D-Mark, and lost ground against the French franc, falling from L289.9 to L289.1. But it remained virtually unchanged against the dollar at just over L1547.

Milan's Mibtel share index closed 2.32 per cent down on Friday, though it had earlier slipped by 2.61 per cent in the afternoon.

Mr Berlusconi, who provoked the crisis last Thursday by approving a decree that has allowed dozens of leading suspects in Italy's corruption investigations to leave prison, appeared on television last night to defend the move and quash speculation about the future of his government.

"We are absolutely not a step away from a government crisis," he said. "The decree is not an amnesty for anyone. We need to have civilised debate, not screaming in the piazza."

The decree led to the immediate resignation of the popular team of Milan magistrates who

have been largely responsible for attacking civil service and business corruption in Italy in the past two years. But it has also shaken Mr Berlusconi's two coalition partners, the Northern League and the neo-fascist MSI/National Alliance. Both parties campaigned in the spring election on strong anti-corruption records and both want the decree repealed.

The subsequent infighting between Mr Berlusconi's Forza Italia movement and the other two partners has already led to the resignation of the government's justice minister, who had been duped over the decree. Forza ministers came close yesterday to accusing him of lying.

The row has further poisoned already poor relations between the coalition partners, particularly between the League and Mr Berlusconi, and although threats by both sides to either resign or provoke new elections seem unlikely to come to a head, scope for compromise is limited.

Analysts believe the government, whose popularity has been dented by the affair, may be able to reach a quieter compromise by the time the decree is discussed in parliament, which has to ratify it within the next three months.

But there was little evidence of an improvement in the political

Continued on Page 16
Lex, Page 16; Currencies, Page 32; World stocks, Page 36

Microsoft settlement an end to 'distracting battle' says Gates

By Louise Kehoe in San Francisco

Microsoft's settlement of anti-trust charges with the US Justice Department and European competition authorities will have "no material impact" on the software company's financial performance, Mr Bill Gates, its chairman and founder, said yesterday. "Any effect will be de minimus."

The settlement, which requires Microsoft to modify its operating system licensing practices, "eliminates something that could have become a major distraction," Mr Gates said.

"I like to spend my time working with the product groups, developing great technology," he added. Mr Gates stressed that he believed Microsoft had never done anything "inappropriate or illegal."

The company's success in selling operating systems programs for PCs "is based on end-user demand and usage. The key thing that affects our sales is not licen-

sing terms but strong end-user demand", he said. Microsoft's future success remained dependent upon the ability of the company to "continue to come up with great products."

The settlement provides Microsoft with an opportunity to do that without the burden of a distracting and costly legal battle, he added.

Industry analysts said Microsoft "got off easy" on charges that it "built a barricade of exclusionary and unreasonable restrictive licensing agreements to deny others an opportunity to develop and market competing products."

Microsoft's share price rose in reaction to news of the agreement. Microsoft was trading at \$60 in mid-session yesterday, up from Friday's close of \$48.

Competition authorities examined a broad range of issues raised by competitors, Microsoft said, but the settlement covers only two of those issues - licensing practices and non-disclosure agreements.

In particular, the settlement

Rwandan rebels in peace gesture



A French medic helps a Rwandan orphan wounded in the weekend mortar attack at the Zairean border. Tutsi rebels named a Hutu as president in an apparent attempt to reassure the Hutu majority that they have nothing to fear under the new regime. Report, Page 16

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NEWS: EUROPE

Rühe raises Polish hopes over Nato

By Bruce Clark, Defence Correspondent

Mr Volker Rühe, the German defence minister, has said Poland could join Nato by the end of the decade, while he sees no prospect of Russia or Ukraine ever doing so.

Mr Rühe's remarks were quoted in the Polish media as he began talks with his French and Polish counterparts on Warsaw's role in the Nato-inspired Partnership For Peace programme.

The German minister also said that his country and the US were the only existing Nato members that were enthusiastic about the idea of extending the alliance eastwards, and some members were cool towards the idea.

"Not all countries are in favour of expanding Nato," he was quoted as saying.

Mr Rühe's comments were in line with the strident declarations of unanimity that were heard in Berlin last week from President Bill Clinton and Chancellor Helmut Kohl over east European questions.

His remarks were an unusually blunt acknowledgement that, although all candidates are supposed to join PFP on equal terms, not all of them can look forward to full acceptance as a Nato member.

Russia, after considerable hesitation, last month became the 20th country to sign up to PFP, a programme that promotes joint military exercises and defence planning.

Mr Andrei Kozyrev, the Russian foreign minister, said at the signing ceremony that the alliance should not alienate Moscow by rushing to incorporate countries to its east.

Nato officials bailed the fact that Mr Kozyrev did not unequivocally denounce the notion of expansion. However, Russian sensitivity over the strategic orientation of Poland remains extremely high.

Moscow has made it clear that it feels unhappy about its former east European "satellites" being admitted to any arrangement from which Russia itself is barred.

Mr Rühe's comments follow a vote in the US Senate to facilitate the transfer of

surplus western defence equipment to Poland, Hungary and the Czech Republic.

The resolution, approved by 76 votes to 22, was intended by its sponsors to accelerate the process of making the arsenals of those three countries compatible with Nato equipment.

It has already drawn a complaint from the Slovak republic that distinctions are being drawn between central European countries in a way that could undermine stability.

Senator Hank Brown, one of the amendment's sponsors, said it was intended to ensure that "reasserting control over Poland, Hungary and the Czech republic will no longer be considered viable by anyone in Russia".

Opponents of the measure argued that, by singling out three countries, it would create jealousies within eastern Europe and foster nationalist forces in those countries which were left out.

In Warsaw, Mr Rühe said Russia would have no influence on Poland's eligibility for Nato membership.

Poland has been the keenest of the east European countries to take advantage of the PFP, and it will host the PFP's first full-blown military exercise in September.

Poland has also held a series of bilateral war games with west European countries and, in October, it will send troops to France for a training exercise with the French and German armies.

Warsaw has also asked to join the Franco-German Eurocorps, the Strasbourg-based unit which is seen by its supporters as the core of a mobile European land army. This proposal has so far been treated with caution in western capitals and it is likely to be viewed with deep alarm in Moscow.

Senator Brown said his resolution had been supported by such veterans of the US foreign establishment, and advocates of a tough line with Russia, as Mr Zbigniew Brzezinski and Mr Henry Kissinger. Mr Brzezinski has called for the formation of a "common security area" grouping France, Germany and Poland.

Western officials discuss options as warring parties consider partition

US and Nato likely to expand role in Bosnia

By Bruce Clark, Defence Correspondent

The US and Nato can be expected to deepen their involvement in the Bosnian crisis, regardless of the fate of the peace plan which the warring parties are now considering, according to senior western officials.

"They were speaking as Bosnian Serb representatives in Pale, and the Moslem-dominated Bosnian parliament in Sarajevo, began considering the partition proposals drawn up by four western nations and Russia."

The Bosnian Serb leader, Mr Radovan Karadzic, told the Pale meeting that acceptance of the ideas would be "less honourable" than rejection.

Mr William Perry, the US defence secretary, said as he began a tour of seven Balkan countries that the US was ready to send a "significant number" of troops to Bosnia if the peace plan won acceptance, while Washington would also accept an expanded military role in the event of renewed fighting.

US officials said that, if an agreement were to take hold,

President Bill Clinton would propose despatching at least 15,000 US troops, to make up about half a peacekeeping force.

In the event of the plan's failure, the US air force would be involved in tougher policing of no-fly zones and safe areas.

At Nato headquarters in Brussels, officials said they were considering three scenarios for deeper involvement, following their talks with the senior members of the UN operation to former Yugoslavia over the weekend.

One was a heavy Nato engagement on the ground in implementing a peace plan which had won broad acceptance by the parties.

The second was an increased use of Nato air power to minimise the extent of the fighting, while retaining some UN presence on the ground.

This would go ahead if the outside powers which have been working for a settlement in Bosnia resign themselves to a less ambitious goal than full-blown peace. They may attempt to confine the fighting to thinly populated areas where there is less risk of civilian populations being held trapped.

For the past three months,

Nato has reserved the right to establish "total exclusion zones" - where heavy weapons would be subject to air strikes - in the UN-designated safe areas of Zepa, Srebrenica, Tuzla and Bihac.

This would mean extending a principle that has already been applied in Sarajevo and the enclave of Gorazde.

Nato could also establish an exclusion zone in the bitterly

disputed area round the town of Brcko, a key point in the corridor that links the Bosnia Serbs with their kinsmen in Serbia.

But that move would require a new resolution of the UN Security Council.

In a third scenario, the UN may decide to pull its troops out of Bosnia and it might then require help from Nato, including air cover, to carry out the withdrawal.

All three scenarios were discussed at weekend talks between Admiral Leighton Smith, Nato's commander in southern Europe, and the two top UN officials in former Yugoslavia: Mr Yasushi Akashi of Japan and France's General Bertrand Lapresle.

In the past, high-level discussions between Nato and the UN about Bosnia have been abrasive affairs. Nato officials have chided the UN for being too soft on the Serbs, while the UN commanders have branded Nato with failing to realise the vulnerability of their peacekeepers and relief workers.

However, alliance officials insisted that the two institutions were now working in much better harmony.

Moslems expelled across frontline

By Laura Silber in Belgrade

Bosnian Serb fighters have rounded up hundreds of Moslem civilians in Bijeljina amid the biggest wave of forced expulsions in over a year.

"This is just like the Gestapo in the second world war," she added, speaking on condition of anonymity out of fear of reprisal.

Mr Kris Janowski, spokesman of the UN High Commissioner for Refugees in Sarajevo, said: "They were told that they were being exchanged [for Serbs] or sent abroad and they had to renounce claims to their property."

Then they were robbed at the confrontation line and pushed over to

the other side... with some shots fired over their heads."

Up to 4,000 Moslems remain in Bijeljina. Moslems comprised the majority of the population of 35,000 before Serb paramilitaries, with the Yugoslav army, waged war against Bosnian independence in April 1992. All but a handful lost their jobs, property and homes.

"It is now terror on the streets. They are trying to clear out the last Moslems," said a 29-year-old Serb inhabitant.

The expulsions are another sign of Serb refusal to abandon their self-proclaimed state and endorse a plan to preserve Bosnia-Herzegovina as a unified country composed of two loosely joined ethnic mini-states.

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Spain and France tighten controls on drift nets

Spain and France have welcomed a decision to give EU inspectors greater powers to check fishing boats for oversized drift nets after skirmishes on the high seas between Spanish and French fishermen at the weekend, Reuter reports from Madrid.

Spanish agriculture and fisheries minister Mr Luis Atienza said: "I think we have achieved a notable strengthening of the processes of inspection and control

which will be carried out by EU inspectors."

After a meeting of EU agriculture ministers in Brussels yesterday, Mr Atienza said France and Spain had agreed to let EU inspectors travel on national inspection vessels to check fishing boats.

"[The decision] will reassert the credibility of the inspection process. Until now, inspectors came from individual countries and practice showed that French patrol boats... were

not sufficiently diligent," Mr Atienza said.

On Saturday, 60 Spanish boats clashed with five French vessels 700km off the northern coast of Spain in the latest skirmish in the so-called "tuna war". A French trawler, La Gabrielle, was rammed and set alight with petrol bombs.

Spanish fishermen claim it carries oversized nets.

Spain's 300-strong fleet headed home on Monday with La Gabrielle in tow. Atienza

said the trawler would be returned to France after checks by Spanish authorities and EU inspectors.

The French agriculture ministry welcomed the Brussels agreement but stressed that France "would never and in no way accept Spanish constraints imposed by force".

Mr Alain Parres, president of the French fishermen's national federation, said he would demand that France

lobby Spanish authorities for compensation for the La Gabrielle incident.

"We're going to demand compensation for the material damage and for the financial cost of lost catches," Mr Parres said before a scheduled meeting with French agriculture minister Mr Jean Puech.

Mr Parres said he would also urge better protection for French fishermen at sea.

EU rules forbid the use of nets longer than 2.5km and Spanish fishermen have consistently accused French boats of contravening these norms.

France has retaliated by saying Spanish fishermen are trying to drive the French out of the water.

The environmental group Greenpeace reiterated its call for a total ban on drift nets. It said the existing ban was insufficient and regularly violated by EU fleets.

Kohl wants E Europeans invited to EU summits

By Michael Lindemann in Bonn

The four east European states making the most progress with their economic reforms should be invited to future European Union summits, Chancellor Helmut Kohl told Hungary's visiting prime minister, Mr Gyula Horn, yesterday. Hungary, Poland, the Czech Repub-

lic and Slovakia should attend at least one summit a year, he said, citing President Boris Yeltsin's recent attendance at the Group of Seven summit in Naples as an example of how this could be done.

"It is incredibly important that the [four countries] receive a message which has some meaning for the popula-

tion," Mr Kohl told journalists.

"I know that the opinion of my [EU] partners differs but that does not affect the fact that I think it is right." However, a government official said there was no timetable for such a measure. The matter would be given more attention after the four new members of the EU - Austria, Sweden, Finland and Norway - had completed the accession process next January.

Germany assumed the EU's rotating presidency on July 1, and Mr Kohl said he would use the opportunity to work for a closer partnership with eastern Europe. The chancellor also said he "passionately" supported Hungarian membership of the Union.

Mr Horn, on his first official visit after being confirmed as premier last Friday, called on German industry to step up its investments in his country, particularly with regard to the privatisation of banks and the development of infrastructure.

Hungary received the most German investment of any east European state last year - some DM600m (\$248m).



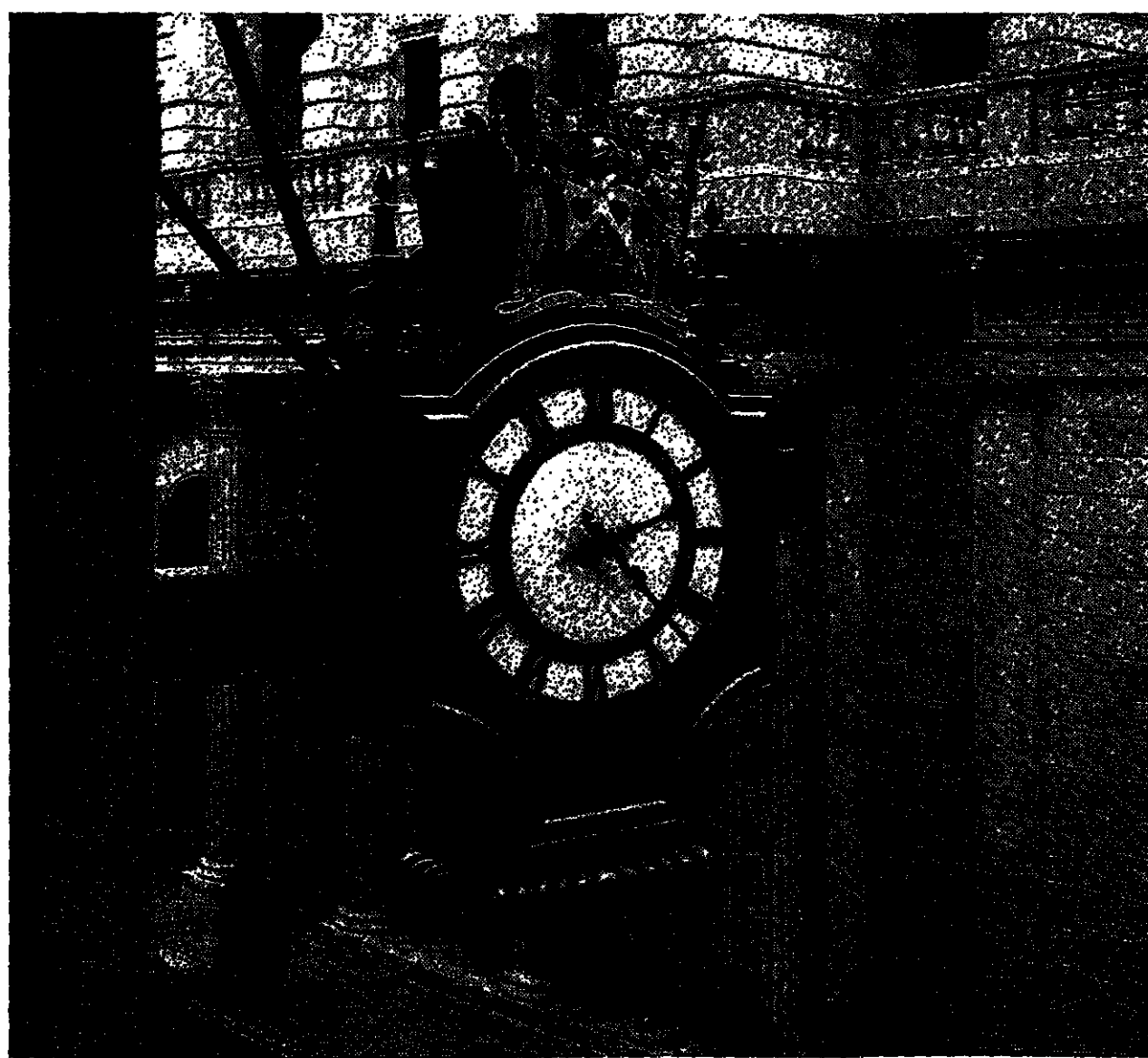
Chancellor Kohl and prime minister Gyula Horn at ceremonies to mark the latter's arrival in Bonn yesterday

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EUROPEAN NEWS DIGEST

Mitterrand has prostate surgery

President François Mitterrand is expected tomorrow to leave the Paris hospital where he has undergone prostate surgery. The president, 77, was admitted to hospital on Sunday and had the operation yesterday to remove an obstruction to his urethra which was affecting his kidney. The surgeon, who treated him two years ago for prostate cancer, said that yesterday's operation had been completed "satisfactorily" and that the president's condition was stable. Mr Mitterrand's wife, Danielle, underwent heart surgery last Friday. Mr Mitterrand has persistently ruled out the possibility of standing for re-election in next April's presidential poll but has long insisted that, his health permitting, he plans to serve out the remainder of his term in office. *Alice Rauschorn, Paris*

UK companies pay bills latest

British companies pay their bills later than anyone else in Europe, and most of the late payment is deliberate, according to a survey commissioned by Intrum Justitia, Europe's largest debt collector. It polled just over 4,000 European companies, and found that payments in Britain are on average 23 days late, compared with a European average of 14 days. Some 54 per cent of late payment by British companies was intentional, whereas the most common reason for late payment in the rest of Europe was financial difficulty. "The British clearly pay as late as possible, probably because, with little effective legislation to stop them, they know they can get away with it," Intrum Justitia said. The British government has recently come down against legislating on late payment, but Intrum Justitia found that 88 per cent of companies in the UK favoured the idea of a statutory right to interest on overdue money all across Europe. A large majority also wanted the right to compensation for the costs involved in chasing debts, as well as simpler legal procedures. *Reuter, London*

EU and Baltics sign trade pacts

The European Union signed free trade agreements with the three Baltic states yesterday. The accords, which provide for free trade in industrial goods and limited concessions in agriculture, bring the Baltic states closer to their goal of joining the EU. German foreign minister Mr Klaus Kinkel said at the signing ceremony that increasing trade was the most important way to further economic reforms in Estonia, Latvia and Lithuania. Estonian foreign minister Mr Juri Luik said his country hoped to fulfil all EU membership requirements by the year 2000. Mr Luik welcomed the European Commission's proposal to hold initial talks by the end of this month on an association accord similar to those with other east European countries. *Reuter, Brussels*

Poland tries to halve debt

Poland yesterday sought to encourage international creditors to commit themselves to financing proposals which will allow Poland to complete a 46 per cent reduction on its \$13.2bn (\$9.8bn) London Club debt in the first half of September. Mr Krzysztof Krowczycki, Poland's chief debt negotiator, said he was "extremely close" to obtaining the consent of holders of 95 per cent of the debt needed for the deal to be implemented in its entirety. Mr Krowczycki said holders of over 35 per cent of the debt want to change it into discount bonds at a 45 per cent reduction rate, while holders of 26 per cent of the debt have agreed to a Polish proposal to buy back their paper at a price of 41 cents to the dollar. The exchange of debt into discount and bond bonds would go ahead even if the 95 per cent consent for buy-back is not achieved, as agreements from only half the debt holders are needed in this case. One London-based debt trader commented yesterday that the government's decision to hold a press conference showed that "agreement was slow in coming at the end" but saw no reason to doubt that the 95 per cent target would be reached, especially as the buy-back element was "generously priced". Poland will be financing the reduction from its own reserves and loans from the International Monetary Fund and the World Bank. *Christopher Robinson, Warsaw*

E German incentives extended

Investment grants and tax incentives for enterprises in eastern Germany, which were due to end next year, will be extended until 1998, Mr Günter Rexrodt, the German economics minister, said yesterday. He said a further DM50n (\$20n) in addition to the annual DM100n would be put aside for investment grants, or subsidies, while companies will be allowed to continue to write off against tax 50 per cent of capital investment in equipment. In addition, DM1.2bn will be allocated to research and development in the five eastern states. The east German economy is expected to grow by about 8 per cent this year, but any growth is coming from a low base - the region's gross domestic product fell by over 30 per cent between late 1990 and 1991, and unemployment, officially at 16.2 per cent, is slowing down not as a consequence of the availability of new jobs, but, according to economists, because the unemployed, particularly women, are no longer being registered on the unemployment register. *Judy Dempsey, Berlin*

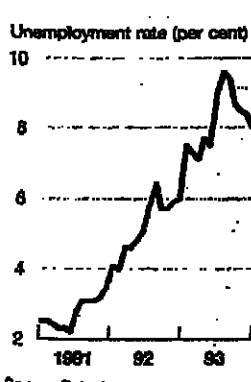
Bangemann set for new term

Mr Martin Bangemann, EU industry commissioner, will have his term as one of Germany's two European commissioners extended next year, the liberal Free Democratic Party said yesterday. FDP general secretary Werner Hoyer said Chancellor Helmut Kohl had agreed to renew Mr Bangemann's appointment in talks on Friday with foreign minister and FDP leader Klaus Kinkel. The renewal of his appointment would depend on Mr Kohl's 12-year-old centre-right coalition retaining power in elections on October 16. There had been speculation in Bonn that Mr Bangemann and his colleague Mr Peter Schmidhuber, a member of the Christian Social Union, would be replaced when their current term expires. Political and diplomatic sources said last month that Mr Kohl, the Christian Democrat leader, and Social Democratic (SPD) opposition leader Rudolf Scharping had agreed that members of their two parties should take up the commission posts. The main candidates were said to be Mrs Birgit Breuel, president of the Treuhand privatisation agency, for the CDU, and deputy SPD leader Heidemarie Wieczorek-Zeul. *Reuter, Bonn*

ECONOMIC WATCH

Swedish jobless rate climbs

Sweden



Source: Databank

Sweden's unemployment rate climbed to 9.5 per cent of the workforce in June from 7.1 per cent in May, according to the central bureau of statistics. The latest figure was swollen by school-leavers and was in line with market expectations. It was lower than a year ago when 9 per cent of the workforce lacked a job. Economists say that, adjusted for seasonal factors, the unemployment rate is steady. This may disappoint the centre-right government, which is anxious for clear signs of economic revival just two months before a general election. An encouraging sign is that the number of people in jobs rose in June to 4.05m from 3.88m in May. The number of people participating in special training schemes was also down, falling to 177,000 from 240,000. *Christopher Brown-Humes, Stockholm*

■ Finnish unemployment rose to 19.9 per cent in June from 19.0 per cent in May, the Labour Ministry said yesterday.

Odessa flexes its old mercantile muscles



Europe's changing cities

Even 70 years of communism failed to tame Odessa, established by Catherine the Great in the 18th century as the Russian Empire's most bustling warm water port.

Soviet rule pushed some of Odessa's sharp traders into the black market and others, from the Jewish community which accounted for a third of the population before the revolution, into emigration. But, with the collapse of communism Odessa, part of independent Ukraine, is again flexing its never entirely atrophied mercantile muscle.

Well appointed, if somewhat flamboyant, Greek, Jewish and Italian restaurants and boutiques are beginning to bring back some sparkle to the dilapidated tsarist mansions that line Odessa's main boulevards. The men in shiny suits who dine there while their bodyguards and BMWs wait outside, are engaged in the business which has always been Odessa's natural mainstay - trade.

The flagship of Odessa's traders is Blasco, the Black Sea Shipping Company which is the largest merchant fleet in the former Soviet Union. In moving to the market, Blasco enjoys an advantage shared to a lesser degree by Odessa as a whole and by other former Soviet port cities, such as Vladivostok and St Petersburg. Regardless of whether they were part of the Soviet Union or in independent Ukraine, we've always been a marine

company which has worked 100 per cent on the world market," says Mr Pavlo Kudiukin, president of Blasco, whose office is decorated with antique furniture and shiny western gadgetry. "Every single one of our sailors has worked in a market economy every day of his life."

This early exposure to the market means that Blasco is responding to the new realities

The city can do again what it always did best, writes Chrystia Freeland

of economic life in Ukraine with a nimbleness unusual in a massive state-owned company. It is ordering new vessels from shipyards in Ukraine, Slovakia and Germany to revive its rusty fleet, has set up a company in Cyprus to help attract foreign business and, within the next few months, is to be privatised with the help of the International Finance Corporation, the World Bank's private sector arm.

Mr Kudiukin is reluctant to disclose exact financial figures, but says Blasco's profits over the past five months were in the tens of millions of dollars. However, for Blasco, as for the other large Ukrainian companies, the transition from the centralised Soviet economy has not been entirely smooth.

To start with, they were cast financially adrift with the col-

lapse of the Soviet Union. At the time Blasco had \$100m on deposit in Vnesheconombank, the USSR's foreign trade bank. "Now that the bank is outside the borders of Ukraine it is unlikely we will get our money back," says Mr Kudiukin.

Under the old regime, 70 per cent of Blasco's business came from central planners in Moscow. Now a third comes from Ukraine and the rest from Germany, China and Russia in that order.

Blasco ships the metals, sugar and grain that are Ukraine's traditional exports. An emerging new breed of Odessa merchants, such as Mr Mikhail Chertkov, head of Karolina-Nord, a private financial company, deal in more liquid assets.

Mr Chertkov, whose spartan office is decorated with lists of countries in which it is easy to set up off-shore accounts, caters to those Odessa businessmen who need help negotiating the financial labyrinth of the former Soviet Union with its various, non-convertible currencies and who wish to keep their hard currency earnings safely abroad.

"Given our anarchic banking system, our clients find it convenient to use our company to make swift hard currency payments for them within the former Soviet Union," Mr Chertkov explains. "The old command economic structures are gone, but no effective new mechanism exists."

One result of Ukraine's financial chaos, according to Mr Chertkov, is capital flight which he estimates at \$15bn, between \$6bn and \$7bn of which he believes has left Ukraine over the past two



The statue of Odessa's first governor, the Duke de Richelieu, looks out across the port

years. "This is all because of the idiotic tax policies of the government," Mr Chertkov says.

"If the investor climate changes all that capital will flow back and the EBRD [European Bank for Reconstruction and Development] and the IMF [International Monetary Fund] will be superfluous."

However, Mr Chertkov says his clients are prospering and re-directing their businesses. Russia, once the dominant economic player, now ranks behind the Baltics, Israel, Greece, Germany and the US in his clients' trade.

"Spiritually, we are very

close to Russia, but in business we've very quickly re-oriented ourselves," Mr Chertkov says. "We've found better partners in the world market."

Mr Chertkov hopes that Odessa can become "the great wholesale bazaar for the entire former Soviet Union".

It is a dream shared by Mr Edvard Gurvitz, who survived an often implicitly anti-semitic campaign to be elected Odessa's mayor in elections on July 10. A free-wheeling businessman who is credited with sprucing up Odessa's centre when he was a city councillor, Mr Gurvitz hopes to establish a free-economic zone in the city.

Mr Leonid Kuchma, Ukraine's new president and one of Mr Gurvitz's political allies, supports the idea and consultants, funded by the EBRD, are already in Odessa to help work out the details of the plan, which, barring administrative obstacles, could come into force late next year.

Mr Gurvitz is hopeful that, with the added fillip of a free economic zone, Odessa's traders will be able to help pull the rest of the nation out of its economic doldrums.

"It's like what the Americans say about General Motors," Mr Gurvitz says. "What's good for Odessa is good for Ukraine."

John Murray Brown reports on Ankara's difficulties in realising its critical privatisation programme

Turkey finds it hard to sell idea of buyer's market in state assets

Mr Tescan Yaramanci is fond of remarking that privatisation is now a buyer's market. As the man in charge of Turkey's sell-off programme, he still has to convince the buyers.

For Turkey's privatisation is at a critical juncture. With access to the debt markets cut off, the government would appear to have little choice but to push ahead with rapid asset sales to bolster the balance of payments and see off a possible debt rescheduling.

Yet, only this month, the government has had its way blocked. The constitutional court invalidated its use of decree powers to speed up the programme, with the effect that parliament's approval will have to be sought for any legislative changes to prepare companies for sale.

The Turkish programme is suffering from a credibility gap. The latest wrangle over pricing in the oil industry, one of the sectors earmarked for disposal, merely points up the conflicting policy objectives of a government desperate to raise revenues for the budget, but also keen to keep a grip on headline inflation.

The companies on offer include oil refining and distribution, telecommunications, the state airline Turk Hava Yollari and a steel concern. Back in May, Mr Yaramanci predicted privatisation receipts

would reach around \$2.5bn (\$1.6bn) in 1994. Today, he is less confident. "It's still the target we're running after. But if you consider we only managed to raise \$1.7bn, in 10 years since the programme was launched, you know what we're up against," he says.

For few developing countries have talked about privatisation for so long with so few results. In some respects, Turkey's privatisation effort is a casualty of what a US banker called reform fatigue. Even today the government is engaged in little more than a revenue raising exercise - the Thatcherite targets of spreading share ownership and increasing economic efficiency are no longer mentioned. Indeed, in the current financial chaos, public offerings have been abandoned with Mr Yaramanci concentrating instead on block sales of strategic stakes to industrial or trade buyers.

The programme faces three main challenges. First, the international market is abrim with privatisation offers from eastern Europe to Latin America and the Far East. Second, it is all but impos-

sible to put a value on Turkish assets, with the lira having depreciated by around 50 per cent since the start of the year. Exacerbating the problems, the government has yet to clarify key issues like labour restructuring and pricing, without which buyers are not able to forecast future earnings.

Third, there are any number of special interest groups who need to be won round to the programme, from labour unions concerned about redundancies, civil servants and politicians worried about loss of status and patronage - even some private sector companies fear increased competition that might result from divestiture. For example, it was on an appeal from Social Democrat deputies that the constitutional court on July 6 overruled the government's fast track legislation.

In today's conditions, bankers also point out that any disposal is likely to have to be at a large discount. This could play further into the hands of those who charge that this is little more than a distress sale. "It's the destiny of the man sitting in this chair," concedes

Mr Yaramanci. "As you cannot possibly make an auction where all 60m Turks participate, there will always be criticism."

Labour issues remain particularly sensitive. The government has made some progress, introducing a job loss insurance fund which will compensate workers laid off for up to eight months after their dismissal. The catch is that financing for the fund has to come from the sales proceeds from privatisation.

As for labour restructuring, there are signs that the government may be backtracking on its earlier pledge to close down the loss-making Zonguldak coal mines and the Karabuk iron and steel works. Mr Yaramanci now talks of a "partial closure, laying off some personnel".

Only two weeks ago, the government had a foretaste of the sort of battle to come, when it publicly invited domestic bids for its 51 per cent stake in Ereğli Iron and Steel company (Erdemir). Mr Yaramanci's comments to reporters that the

company was probably not worth its replacement value, pitched him into a slanging match with one of the company's directors, who called his comments "criminal" and called for a stock exchange inquiry.

The decision to go to public tender for Erdemir is understood to have been against the advice of the consultants CS First Boston. The move is seen more as a measure of the pressure Mr Yaramanci is under from the politicians, motivated by the need to show the World Bank and others supporting the privatisation effort that the programme is still on track. Moreover, by inviting local bids, the government is also hoping to see off the criticism that domestic investors have been ignored - a problem which led to court action on earlier sell-offs.

Mr Yaramanci is understandably frustrated. However, not all the problems are within his control. The telecommunications sector has been embroiled in an embarrassing legal tussle. In April, Teletas - a joint venture with Alcatel Bell and Turkey's first privati-

sation - was forced to seek court protection from its creditors, as a result of the failure of the state telecom monopoly PTT to pay for its equipment supplies. The issue has since been resolved with Citibank last week lending \$165m to the government to allow the PTT to settle its debts. However, the incident can hardly have helped the planned PTT privatisation.

Conflicting policy objectives are equally apparent in the petroleum sector. Here, the foreign oil majors, now being courted to take a stake in the industry, complain that the government is using its control over the state-run Tupras refinery, to hold down domestic oil prices, causing additional losses at both Tupras and the state-run retailer Petrol Ofisi.

Mr Yaramanci insists that with privatisation of Tupras, 70 per cent of refining capacity will be in private hands, ensuring a level playing field. "We will offer comfort and security to investors," Mr Yaramanci declares. However, in the next breath, he reveals that the government may seek certain industrial conditions "to protect employment and secure some capacity increases or additional investments".

As one banker put it: "He may talk about a buyer's market, but then he seems obliged to introduce all these seller's conditions."

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NEWS: INTERNATIONAL

Nigerian protesters claim 20 killed in clashes

By Paul Adams in Lagos

Nigeria's striking oil unions said yesterday their leaders had disappeared, as witnesses to clashes in the commercial capital Lagos between demonstrators and security forces reported a number of deaths.

The Campaign for Democracy, which is seeking the removal of the military government, said 20 people were killed. One witness said a man in military uniform had been left dead by a rioting crowd, while

another unconfirmed report said eight people were shot by armed security forces.

The oil workers are demanding that General Sani Abacha's regime uphold the result of the June 1993 presidential election - which was annulled after Mr Moshood Abiola emerged as the apparent winner - and reverse its cuts in investment in the oil industry. Mr Abiola has been arrested and faces trial for treason at the end of this month.

Nupeng, the junior oil workers

union which is entering the third week of its strike, says its leader Mr Frank Kokori is under arrest, which is denied by the police. Pengassan, the senior staff union which joined the strike a week ago, says it does not know where its two top officials are.

The oil workers yesterday ruled out an end to the strike until the military government hands over to civilian rule and denounced as a sell-out talks at the weekend between the government and other

trade unions over an end to the strike.

Some of the 41 unions which make up the Nigeria Labour Congress (NLC) began a two-day meeting in Kaduna yesterday to consider a national stoppage in support of Nupeng, especially if any of the strikers were badly treated. The NLC has sided with the government in previous crises and avoided all-out strikes, but as an umbrella for the labour movement it does not control individual unions.

Factory workers have been on strike in support since last week in Lagos, where most of the industrial area is shut either because of strikes or the lack of electricity and fuel.

Some multinationals operating in the Lagos area say they have between a week's and two weeks' supply of industrial fuel, diesel and petrol. The strike has stopped deliveries of petroleum products to filling stations and big industrial users, mainly in the south-west of Nigeria.

Shell, which produces half of Nigeria's estimated 2m barrels of oil a day, said: "It is affecting production in a small way but we are meeting tanker delivery schedules. Gradually the strike is taking effect."

Senior management and expatriate staff, who are not union members, are trying to maintain essential services. Pengassan has warned of reprisals against strike breaking but were not specific about the action they intend to take.

HK notes to mature after handover

By Simon Heibertson in Hong Kong

Hong Kong's Monetary Authority, the colony's central bank, is to test investor sentiment towards the transfer of sovereignty to China when on Monday it offers HK\$500m (£41.5m) of three-year notes that mature on July 28, 1997.

The authority said yesterday that Beijing's approval had been obtained to conduct a borrowing programme, even if repayment was beyond July 1, 1997, the day sovereignty passes to China. Through Mr Joseph Yam, its chief executive, the authority has established close working relations with the People's Bank of China, Beijing's central bank.

The authority said it expected the notes would be well received. They carry a coupon rate of interest of 6.95 per cent. "We believe the market has discounted the 1997 factor," an official said.

The issue of three-year paper is part of the authority's attempt to establish the basis for a debt market in Hong Kong. It now issues securities with maturities ranging from three months to three years, and is considering the issue of a five-year note.

The notes and bills are sought after by banks. The authority operates a discount window at which banks can cash notes and bills for overnight funding.

Bills have been issued since 1991. The value of outstanding notes and bills at the end of June was HK\$444bn. These securities are backed by Hong Kong's exchange fund, a government reserve established to maintain the value of the Hong Kong dollar, which the authority manages.

Desert tribes meet to bury their differences

By Julian Ozenne and James Whittington on the Israeli-Jordanian border

Like two warring desert tribes, Jordan and Israel met yesterday in a modern version of a Bedouin tented camp on their disputed sun-baked border to settle old scores and draw up a peace treaty.

Sheltering from the 40°C desert heat in an air-conditioned white and yellow striped tent, Israeli and Jordanian officials and army generals sat at a table straddling the border and shook hands.

The bilateral talks, the first to be held publicly in the region, focus on border, water and refugee issues and aim to lay the groundwork for peace.

Tight security ringed the sandy area where Israel, amid isolated palm trees and scrub, cleared away barbed wire and

land mines and constructed a small encampment complete with generators, portable toilets and dozens of telephone lines and faxes. In the background loomed the chocolate brown hills of Wadi Rum from where Lawrence of Arabia descended to capture Aqaba in 1917 and spark the Arab revolt against the Turks.

Both sides emphasised the significance of the site. Mr Eliyahu Rubinstein, head of the Israeli delegation, said: "This meeting takes place in a tent. The tent is tentative, but peace should and will be permanent. We are at a very warm spot of our two countries - it is only natural to express the hope that Israeli-Jordanian peaceful relations will be warm forever."

Ambassador Fayez al-Tarawneh, head of the Jordanian delegation, said: "We hope that our location which bears testi-

mony to the imperatives of geographic proximity and inter-dependence will inspire us to arrive at tangible results so that the fruits of our common endeavours may be felt by ordinary men and women in our long-suffering region."

Israel put up a white iron gate in the border fence and many Israeli officials, soldiers and journalists who passed through were taking their first steps on Jordanian soil.

Several Israelis posed for photographs to capture the sense of history. Outside Israeli soldiers milled around sipping cola at a portable snack bar set up by Shechem, the Israeli army caterers.

On the Jordanian side, guests at the Aqaba Holiday Inn watched an Israeli TV journalist talking in Hebrew on a mobile phone to Jerusalem while issuing instructions to a Jordanian camera crew. Mobile



Jordanian delegation head Fayez al-Tarawneh (right) looks to his Israeli counterpart Eliyahu Rubinstein as peace talks start

phones and Israeli citizens are banned in Jordan.

On the exit road an Israeli dishdashed on a glossy promotion brochure on the tourist resort

of Eilat with a special statement from the town's mayor, Gabi Kadosh - a long-time enthusiast of Jordanian-Israeli co-operation in tourism. He

called for urgent co-operation and sharing of facilities such as airports, transport and water resources between Eilat and Aqaba. "Since our first

presence in this region we have dreamed of peaceful relations with our next-door town of Aqaba. Eventually this day has been reached."

US firm over lifting sanctions on Iraq

The US last night took a firm stand against lifting the embargo against Iraq even as Baghdad sought improved relations with its Arab neighbours and boasted of co-operating with the United Nations, writes Michael Littlejohns, UN Correspondent, in New York.

As the Security Council conducted its periodic review of sanctions Ms Madeleine Albright, the US ambassador, asserted that this "limited co-operation" was sporadic, selective and opportunistic.

She said Baghdad was trying only to escape sanctions while ignoring other requirements imposed by the Council.

The US was convinced that what co-operation had been seen would cease once Iraq was enabled to sell oil. While Baghdad still had not revealed fully its mass destruction weapons programme, it was already contacting former suppliers or middle-men to purchase new armaments.

Although France, Russia and some third world states are eager to have the Council acknowledge that Iraq has made progress towards implementing Council resolutions, Ms Albright said it was premature to discuss either the terms or the timing of modifying sanctions.

Mr Tariq Aziz, Iraqi deputy prime minister, who is in New York, has accused some states - implicitly the US and Britain - of obstructing an easing of the embargo.

Both countries have veto powers.

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Murayama promises a more gentle and humane Japan

Mr Tomiichi Murayama, Japan's new socialist prime minister, yesterday sought to improve the weak popularity of his government by promising a more gentle and humane Japan, writes William Dawkins in Tokyo.

The fourth administration of the past year will be "people friendly... a government you can feel at ease with" and will strive to make Japan "not to be a powerful country but a caring country," Mr Murayama told parliament in his inaugural policy speech. He promised tax cuts, "trustworthy politics," no change in defence policy, and a more discreet international profile, in an attempt to assuage popular anxiety over the coherence of the left-right coalition, which seized power in a parliamentary coup three weeks ago.

Mr Murayama openly confirmed for the first time yesterday that he would abandon some of his Social Democratic party's more extreme policies, such as seeking to disband the military, so as to fall in line with the dominant coalition partner, the conservative Liberal Democratic party.

Policy rows with the left wing helped destroy the previous two centre-right-led coalition governments, but Mr Murayama's socialist colleagues appear ready to suppress old ideologies to stay in power now their leader has become prime minister.

Mr Murayama took care to avoid



Murayama: will value kindness

controversy yesterday. He made no direct reference to a rise in sales tax, which the finance ministry insists is needed to fund the drop in income tax and pensions.

However, Mr Murayama planned to "seek the understanding of the people" to reform the tax system by the end of the year. He aimed to put government finances, where the state has over ¥200,000bn (£1,310bn) of outstanding bonds, on a "sound footing."

On the economy, he promised to

strive for exchange rate stability and for a "highly significant decrease" in the current account surplus, which reached a record \$60.01bn (£38.5bn) in the first half of this year. To that end, Mr Murayama's government will press ahead with deregulation, to cut prices and to dismantle barriers to new businesses.

On defence, he promised to uphold the US-Japan security treaty, under which 24,000 US troops are deployed in Japan, and to maintain a minimum defence capability. This will help assuage widespread public anxiety on Japan's readiness to face a threat from North Korea, but implies a steep climbdown by the SDP's left wing when the party holds its next policy conference in September.

On foreign affairs, Mr Murayama toned down Japan's bid for a permanent seat on the UN Security Council and said he wanted a "thorough discussion of the rights and responsibilities" involved. His call for a nation of peace that does not flaunt economic or military power marks a contrast to the previous two governments' desire for a higher world profile.

On domestic politics, Mr Murayama confirmed that he would not call an election until after new constituency boundaries have been drawn, the final stage of a five-year campaign to curb corruption and make politics more responsive to the electorate.

Sino-Indian trade route reopens

By Shiraz Sidhwa in New Delhi

India and China yesterday agreed to reopen an ancient trade route after 32 years, as Mr Qian Qichen, China's vice-premier and foreign minister, said during a visit to New Delhi that he hoped border disputes between the two countries would be resolved soon.

Mr Qian and Mr Manmohan Singh, the Indian finance minister, signed an agreement for the avoidance of double taxation and the prevention of fiscal and tax evasion. The agreement provides for lower rates of taxation for income generated by transfer of technology and investment, with guidelines to resolve tax disputes and provisions for exchange of information on tax evasion.

An ancient trade route through the Shipkila Pass on the border of Kinnaur district in Himachal Pradesh was formally restored with the signing of a protocol by the two governments.

The route, which was closed in 1962 after the occupation of Tibet by China

and the Indo-China war, will be serviced by trading complexes at Chhapan on the Indian side and Jueva on the Chinese side.

Mr Qian said he hoped bilateral trade, which increased to \$675m (£433m) in 1993-94 from \$220m the previous year, would register further dramatic growth. The two countries also agreed to strengthen economic and technical co-operation in the steel sector. India's iron ore exports to China touched nearly 4m tonnes in 1993-94.

Mr Qian's visit is the latest in a series of talks aimed at improving relations between Asia's two largest countries. Mr P V Narasimha Rao, Indian prime minister, visited Beijing last September, when an agreement to maintain peace along the 4,000km Sino-Indian border was signed.

However, the two countries have been unable to reduce troops along the border or resolve several long-standing disputes, including China's refusal to accept the merger of Sikkim, a state between Nepal and Bhutan, with India in the 1970s.



Indian police arrest Tibetans in New Delhi yesterday during a demonstration against the visit of Chinese foreign minister Qian Qichen

MONEY SUPPLY GROWTH FALLS

Growth in Japan's money supply slowed in June for the second successive month due to stagnant bank lending, as the sluggish economy continued to affect demand for funds, writes Emilio Terazono in Tokyo.

The Bank of Japan said M2 plus certificates of deposit grew 1.5 per cent from a year earlier, down from 1.7 per cent for May. Money

supply grew 2.2 per cent in April.

While recent hot weather has boosted retail spending, spurring hopes of an imminent economic recovery, demand for funds for capital investment remains weak. Bank

lending in June fell 0.1 per cent from the previous year compared with the 0.3 per cent rise in April and the 0.1 per cent rise in May.

Brokers Barclays de Zoete Wedd said growth of M2 plus certificates of deposit could recover to 3 per cent by the year-end if currency markets stabilised, prompting a modest economic recovery.

However, deterioration of balance sheets at banks may mean credit creation once recovery is under way, in turn limiting the economic rebound.

Central Vietnam wants to join high-flyers

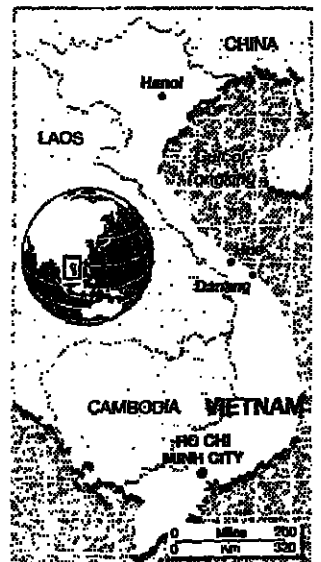
Provincial officials are tired of being passed over by investors, writes Victor Mallet

From the moment the communist government began liberalising the economy in 1978, the inhabitants of central Vietnam complained that almost the only signs they saw of foreign investors and tourists were the glinting wings of aircraft 30,000 feet up shuttling between Hanoi and Ho Chi Minh City.

Of the \$8bn in foreign investment projects approved throughout the country, only 25, valued at \$163m (£104m), are located in Quangnam-Danang, the most important of the central provinces sandwiched between the South China Sea and the mountains on the Lao border.

And of that \$163m, only a quarter has actually been spent so far, according to local officials. Investments include a gold mine, a granite processing factory, seafood and furniture export businesses, and a German-Italian-Vietnamese venture making freight containers.

"We have a lot of investment



in Ho Chi Minh City and Hanoi and not enough here," says Mr Doan Ngoc Dau, a member of the communist provincial people's committee in Danang. After years of neglect, the

national government is attempting to revitalise the stagnant economy of central Vietnam. Foreign investors facing stiff competition elsewhere are also looking at the region's opportunities for industry and tourism with renewed interest.

Among the main obstacles to economic growth were the conservatism and corruption of the communist cadres and army officers who control the region, scene of the fiercest battles in the Vietnam war. In May, however, the Hanoi government cleared out some of the dead wood.

According to Mr Dau, the chairman of the provincial people's committee was retired, the regional Communist party chief was replaced with someone more dynamic, and the chairman of Danang city people's committee and one of his deputies were fired for making "mistakes in land distribution".

The reshuffle was welcomed by the emerging private sector

in Danang where most businesses in the area are still controlled by the armed forces or the Communist party and where official discrimination against those whose relatives fought on the American side was only recently ended.

"Leaders here have been frightened of making decisions, because they are afraid they will be responsible for any problems," says Ms Truong Thi Kim Anh, of the Danang branch of the Vietnam Chamber of Commerce and Industry. "But now the bureaucratic system is improving a lot."

Although state companies remain dominant - only 20 of the chamber's 200 member companies in the central region are from the private sector - entrepreneurs have gradually begun moving into import-export businesses, retailing and tourism services, including small hotels.

Many such individuals are former government employees, including one of Ms Anh's col-

leagues, who recently decided to set up his own business exporting furniture.

For potential foreign investors, tourism has been the main focus in central Vietnam. The area around Hue, the former imperial capital, has many tourist attractions, not least the Vietnam war battlefields now frequently visited by Americans.

Danang is close to the picturesque old town of Hoi An and to many beaches, including the one known to Americans as China Beach. The annual number of foreign visitors to Danang trebled to 33,000 between 1991 and 1993, and some 28,000 have already arrived in the first half of this year, many on cruise ships.

A Hong Kong company has begun work on a \$24m beach hotel due to be completed at the end of next year, and an American consortium has plans to build a \$250m resort with several hotels and a golf course, both projects are joint

ventures with the local authorities.

On the industrial front, a Malaysian-Vietnamese venture has started to build a \$24m export processing zone near Danang. Quangnam-Danang province alone wants to attract \$1bn in foreign investments by the end of the decade. Boasting of its mineral, agricultural and marine resources, the province has drawn up a list of more than 70 possible projects.

Foreign investors, some frustrated by bureaucracy and corruption in the past, are likely to remain cautious, but there are signs of more activity. Shipping companies are opening offices in Danang and the number of cargo vessels calling at Danang port has risen to about six a week, says Ms Anh.

An attempt to make Danang an international air gateway with flights to Taiwan failed but at least some of the domestic flights packed with tourists and investors are landing at Danang these days.

Indonesia offers East Timor talks

Indonesia yesterday marked the 18th anniversary of its annexation of East Timor by offering to negotiate with guerrillas opposing the takeover, but the authorities warned that they would come down hard on lawbreakers.

East Timor came under renewed international scrutiny after hundreds of mainly Catholic protesters were beaten back last Thursday by police. It was the most violent confrontation there since troops gunned down up to 200 demonstrators at a funeral in Dili in 1991.

Palau to end UN trust status

Palau will end its status as the last United Nations trust territory in the Pacific on October 1 and will be formally linked to the US, said Palau President Kuniwo Nakamura. Retor reports from Guam.

Under an agreement with the US approved by Palau's voters, the islands will become self-governing, with Washington retaining responsibility for external defence.

Nabisco and Pfizer launch fat substitute

By Victoria Griffith
in Boston

Nabisco Foods Group and Pfizer Food Science yesterday announced the launch of a fat substitute, Salatrim, to be used in low-fat chocolate bars, ice cream and cheeses.

Nabisco, a unit of RJR Nabisco, hopes to launch the product in chocolate bars by mid-1995, breathing new life into the faltering fat substitutes industry.

Satisfactory fat substitutes have been difficult to develop without destroying the taste of products, as fat carries taste to the mouth.

Those that have been developed have also experienced difficulty in gaining Food and Drug Administration approval. Procter & Gamble's Olestra has been mired in the approval process for years.

However, Salatrim is unlikely to get delayed by the FDA, according to Mr Hank Sandbach, a spokesman for

Nabisco Foods Group, because it is made from natural substances.

It has also solved the problem of taste, its makers claim, by combining fat substitutes with fat.

Derived from short-chain acids found in vinegar and cheeses, and steric acids found in vegetable oils, Salatrim contains fewer calories than traditional fats because it contains more large molecules, which are not so easily digested.

Salatrim contains five molecules of fat per gram - more than competing fat substitutes, but less than traditional fat.

The market for low-fat products in the US is potentially great, with Americans showing increasing concern about their weight, as evidenced by the explosion of the diet industry.

Americans also seem to be fighting a losing battle with fat. The number of obese adults in the US has surged

dramatically over the last ten years, according to a recent study by the National Center for Health Statistics, part of the Centers for Disease Control and Prevention.

Between 1960 and 1980, a quarter of all American adults were judged obese. By 1991, that had jumped to one third.

"The government and health organisations have been pushing Americans to lower their fat intake for years," said Lyn Nabors, executive director of the Calorie Control Council in Atlanta. "But the message is not really getting through. Consumers don't seem to want to sacrifice taste at all, which is why a good-tasting fat substitute is so important."

Pfizer Food Science says it hopes to launch ice creams, cheeses, and baked goods made with Salatrim soon. Margarine and spreads will be introduced later. So far, the company has not found a way to use the product for frying.

Probe of Mexican group widened

By Damian Fraser
in Mexico City

The office of Mexico's attorney-general has widened its investigation into Grupo Financiero Havre, a financial services group in Mexico City, for alleged embezzlement of more than \$100m (\$55m) from state development banks.

The government alleges that Havre set up more than 70 phantom companies which illegally borrowed more than \$100m (some in pesos, some in foreign exchange) from Nafinsa and Bancomext, two state development banks.

The money was alleged to have been diverted into other companies owned by the family of Mr Julio Mariscal, the Havre chairman.

He is one of Mexico's most prominent businessmen. In addition to controlling Havre, he owns the Mexican concession to sell General Motors cars.

In 1992, Mr Mariscal bought the brokerage Casa de Bolsa México for about \$60m.

Havre is Mexico's 18th largest financial services group, with insurance, brokerage, factoring and leasing subsidiaries. Government officials have now assumed supervision of the group.

Last month, Havre's insurance arm was accused by the finance ministry and the national banking commission, a regulatory body, of failing to report financial information, of alteration of financial records and over-reporting its level of capitalisation.

The attorney-general is taking legal action against at least 34 Havre executives, including Mr Mariscal, his son, the company's top legal officer, Mr Ricardo Nevárez, the vice-chairman of the insurance arm, Mr José Antonio Aguilar, and the company's entire board of directors.

Mr Mariscal is reported to be in hospital in the US, with proceedings under way to extradite him to Mexico, while Mr Nevárez has been reported as having disappeared.

IMF 'facing a busier future'

By Michael Prowse
in Washington

The International Monetary Fund's second half-century will be busier than its first, if Mr Michel Camdessus, the managing director, has his way.

Setting out his vision of the IMF's future at a Washington news conference, he said it needed to play a larger role as a manager of the international economic system, while increasing its efforts to promote sustainable growth in former communist countries and the developing world.

He said big changes in the 50 years since the IMF and World Bank were created, at Bretton Woods in New Hampshire, included the greater mobility of international capital and the bigger role of developing countries in the global economy.

The globalisation of economic activity brought about by capital mobility made national economies more interdependent and made effective central co-ordination of policies more necessary than ever.

However, he signalled that the consultative process of the Group of Seven leading industrial countries was not ideally suited to the task because it excluded developing countries. It was "crystal clear that we must try to promote more participatory decision-making", with developing countries playing a role commensurate with their economic importance.

The IMF's interim committee, which meets twice a year and includes 24 finance ministers from industrial and developing countries, provided a "remarkable framework for

participatory decision-making." Its role should be strengthened to reflect the challenges posed by globalisation of the world economy.

Mr Camdessus brushed aside a suggestion by the Bretton Woods Commission - an independent group of experts headed by Mr Paul Volcker, a

1980s to supplement global stocks of gold and foreign exchange reserves.

Mr Camdessus said countries planning to implement strong adjustment programmes under stand-by or extended fund facilities should be able to borrow up to 90 per cent, rather than 68 per cent, of their quo-

increase in SDRs to all members to increase global liquidity when inflation was low.

Mr Camdessus said he would continue to press all members to make their currencies fully convertible on current account transactions. At present, only 93 of 179 had achieved this. But it was time "for the IMF



IMF chief Michel Camdessus: Looking forward to the fund's second half-century

Picture: Tony Andrews

former chairman of the US Federal Reserve Board - that the IMF should focus on its global monetary responsibilities and not duplicate the work of the World Bank in promoting growth in developing countries.

The fund, he said, needed to do more, not less. It was working on a package of measures to increase economic support for clients, especially ex-communist countries, involving increased access to its loan facilities and a new allocation of special drawing rights (SDRs), the fund's artificial reserve asset created in the

tas with the fund. (An IMF quota is akin to the membership fees paid when joining a club.) He also favoured increased access to the systemic transformation facility, a loan facility designed for former communist countries.

On SDRs, two options were being discussed. Equity considerations justified a restricted allocation to the 37 countries (including some eastern European countries and the former Soviet Union) which had joined the fund since the last allocation in 1981. However, he believed there was also a strong case for a general

to go an extra mile" and insist that members also liberalise transactions on capital accounts which had not been envisioned by the fund's founding fathers. Free capital flows would promote greater efficiency in resource allocation.

However, although greater capital mobility was desirable, it also raised the "risk of sudden crises", even in countries with sound policies. So, Mr Camdessus would continue to press for the creation of a new IMF facility to give members resources with which to defend themselves against speculative attacks in financial markets.

Bargaining setback for pulp unions

The British Columbia Labour Relations Board has ordered the province's pulp and paper unions to negotiate with companies individually, reversing a 50-year tradition of industry-wide bargaining, reports Robert Gibbons from Montreal.

The unions have been without a contract for several months and, with surging company profits, had insisted that industry-wide bargaining be a precondition of serious negotiating.

The board ordered the unions to proceed with negotiating new labour contracts with a dozen big companies. It said the unions' stand for industry-wide bargaining flouted current labour laws requiring bargaining in good faith. The companies ended industry-wide bargaining last January.

Canadians ease internal barriers

By Bernard Simon in Toronto

Canada's prime minister, Mr Jean Chrétien, and leaders of the 10 provinces yesterday signed a long-awaited deal to ease internal trade barriers.

The agreement falls short of the federal government's aim of dismantling the plethora of non-tariff curbs maintained by the provinces but business groups have welcomed it as an important first step.

Yesterday's signing ceremony in Ottawa was also designed to send a message to Quebec, where the ruling Liberals are about to embark on an uphill election campaign against the separatist Parti Québécois.

Mr Daniel Johnson, Quebec's outspokenly federalist premier, needs to show voters that the francophone province will fare

better as part of Canada than by breaking away. Mr Johnson is expected to call an election later this week for September 12.

The PQ leader, Mr Jacques Parizeau, has scoffed at the inter-provincial trade agreement, noting that it falls short in many respects of the North American Free Trade Agreement (Nafta) and multilateral trade pacts to which a sovereign Quebec would be a signatory.

Among areas covered by the package are government procurement, labour mobility, transport licences and product standards. The deal also includes a weak dispute settlement mechanism. However, Ottawa and the provinces were unable to agree on contentious areas such as energy, alcohol and agriculture.

Bomb attack on Jews kills 16

At least 16 people were killed yesterday, and dozens injured, by an explosion in Buenos Aires which leveled a seven-storey building housing two Jewish groups, agencies report from Buenos Aires.

In Jerusalem, Mr Shimon Peres, Israeli foreign minister, said he was sure the explosion was a terrorist attack, while the World Jewish Congress in New York called on all Jewish organisations to take immediate security precautions.

An estimated 100 people had worked in the building, which housed the Delegation of Argentine-Israeli Associations, the country's principal Jewish community

organisation, and the Argentine Israelite Mutual Association, a charity group.

The cause of the blast had not been determined by yesterday afternoon, but Argentine President Carlos Menem said he believed it had been an attack planned "from abroad and helped by people here".

He immediately sealed Argentina's land borders, ports and airports to try to prevent the escape of any suspected bombers. Passengers who had already boarded flights were brought back to airport terminals while investigations took place.

In March 1992, a bomb destroyed the Israeli embassy in central Buenos Aires,

killing at least 28 people and injuring more than 220. Responsibility for that blast has not been determined, despite fears of further attacks. A rash of telephoned threats to Jews in Argentina for about a month afterwards led to police being stationed at Jewish schools, cemeteries and cultural centres.

There are 250,000 Jews in Argentina, most of them in Buenos Aires.

Mr Yitzhak Rabin, Israeli prime minister, called the new attack "a cowardly, criminal and evil act". He vowed that "Israel will continue to chase the perpetrators of terrorism to the end".

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NEWS: WORLD TRADE

France urged Subsidies deal signals softer US line to block shipyard pact

By John Riddling in Paris and Emma Tucker in Brussels

French shipbuilders yesterday condemned the weekend agreement on eliminating subsidies in the shipbuilding industry, claiming their competitors would benefit from indirect subsidies that would be left intact. Shipbuilders also urged the French government to try to block the accord.

"It is a very bad agreement," said Mr. Fabrice Theobald, general secretary of the *Chambre Syndicale des Constructeurs de Navires*, the French shipbuilders' association. He compared it to the Blair House agreement on agricultural trade between the European Union and the US, which reduced farm subsidies and was bitterly opposed by French farmers.

The French government was alone in rejecting the agreement reached after a week of negotiations at the Organisation for Economic Co-operation and Development in Paris. France said it wanted negotiations to continue - to reach a consensus "which respects the interests of all parties".

According to Mr. Theobald, the principal French industry objections relate to indirect subsidies which, he says, are left intact under the agreement. He cited home credit schemes, under which shipowners get preferential interest rates for ordering ships at domestic yards and development and research grants.

The French industry also opposes the Jones Act, under which US coastal trade is restricted to vessels built in US yards. "We see no reason why this act should receive a blessing in the agreement," said Mr. Theobald.

The GSCN said that the French government could and should block the OECD agreement by invoking vital national interests.

Mr. Theobald said that the French industry had restructured as far as possible and that, over the past 10 years, the number of big shipyards had been reduced from seven to two, while the number of shipyard workers had fallen from 20,000 to 5,000. "We have no more fat left, only nerves and muscle," he said.

France yesterday played down suggestions that it would invoke special powers to protect subsidies paid to its ailing shipyards which have come under threat from the new international agreement.

At a meeting of foreign ministers in Brussels, the French reiterated their opposition to the deal between the US, EU, Japan, South Korea, Finland, Norway and Sweden to end direct and indirect subsidies to shipyards in these countries.

The French argued that the agreement would not ensure fair competition because it allowed certain countries - notably Spain, Portugal and Belgium - to continue paying subsidies linked to existing programmes. France was offered a similar deal but turned it down, preferring to hold out for total exemption.

Suggestions that France would evince the so-called Luxembourg compromise - which allows a country to veto an agreement - were dismissed as premature. The matter is likely to be discussed again at the next foreign ministers' council meeting. The agreement must be ratified by all participants and is due to take effect at the beginning of 1995.

Japanese orders at four-year high

Foreign ship orders received by Japanese shipbuilders during the first six months of 1994 rose to 5.2m gross registered tonnes (grt), a level attained for the first time in four years, Reuters reports from Tokyo.

"The major reason was the mass order of nine very large crude carriers (VLCC) in that half of the year," a spokesman for the Japan Ship Exporters' Association said.

A large part of those orders was for the Saudi Arabian National Shipping company's orders for five double-hulled VLCCs, signed with Mitsubishi Heavy Industries.

The last time Japan's ship orders for a first half were at this level was in 1990, when

5.5m grt of orders were reported, the association spokesman said. Total orders for all of calendar 1990 stood at 8.6m.

However, orders for June were down from May, at 635,586 grt. May registered the highest increase this year when orders peaked at 1,649,510 grt.

Japan produces about 40 per cent of the world's ships and there are virtually no direct subsidies to the Japanese shipbuilding industry.

Even so, Japan provides indirect subsidies in the form of loans to shipowners through the Japan Development Bank. In fiscal 1992, such loans totalled ¥53.3bn, according to the transport ministry.

By Our Foreign Staff

The agreement on eliminating shipbuilding subsidies reached on Sunday follows five years of negotiations, chiefly at the insistence of the US.

Two main issues that nearly scuppered the discussions earlier this year were hammered out at last week's talks: European objections to the US Jones Act, under which a fixed proportion of cargo passing through US ports must be carried in vessels built in US yards; and concern about South Korean plans to increase shipbuilding capacity by 40 per cent over five years.

Mr. Staffan Sohlman, the Swedish chairman of the OECD committee overseeing the talks, made clear that last week's meeting was "make or break".

Under the agreement, the Jones Act stays in place but its scope is limited. France is still objecting to this part of the deal, although it could be overruled in a European Union vote.

There is still some concern about

capacity increases in the absence of subsidies, but other concerns helped to concentrate minds in the final days of the OECD talks: the US threats of unilateral action over subsidies, and the prospect that a trade war could follow.

The Clinton administration made clear earlier this year it was ready to back legislation enabling penalties against subsidised vessels. The Gibbons bill before Congress would have authorised sanctions on subsidised foreign vessels entering US ports.

It was realised that failure to secure agreement could threaten a ruinous price and subsidy war and remove any chance of controlling dumping. In these circumstances, retaliation could have brought about a wider trade war.

Details of the agreement are still confidential until discussed in the EU Council of Ministers. However, the main points are:

- All subsidies, direct and indirect, except for research and development, will be banned from January 1 1995,

when the agreement takes effect. Subsidies already granted will be permitted after the ban comes into effect, but limited to ships for which contracts are signed before the end of 1995 and which are delivered by the end of 1998. Some experts fear that this allowance may produce a last-minute subsidy rush.

- Export credits for ships are brought under the "Helsinki rules", the disciplines already agreed in the OECD for the application of general export credits. Disputes procedures have been agreed, so that suspected breaches can be challenged judicially.
- A mechanism has been established to prevent "injurious pricing", such as in cases of dumping. This was an important concession, especially by the Koreans and the Japanese, who had long resisted the idea. It will be enforced by disputes panels, similar to those in the General Agreement on Tariffs and Trade, which will have the power to award damages.
- The US has agreed to a cap of 250,000

gross tonnes annually on the capacity built under Jones Act provisions. If the US exceeds this ceiling, disputes procedures may be opened against it.

- Countries may provide domestic credits on terms equivalent to export credits.

Talks were conducted within the OECD, rather than Gatt because the normal Gatt principles do not apply to ships, which technically are never imported.

The agreement, which will be monitored, covers 75 per cent of world shipbuilding. The rest is carried out mainly by Russia, Ukraine, Poland, China and Brazil.

Efforts will be made to extend the agreement to these countries. In Poland's case, its accession may be linked to its planned membership of the OECD. Prospects for Russia, Ukraine and China appear less hopeful. However, the OECD participants plan wider talks on the industry with these countries in the next 12 months.

European groups win dam contracts

Impregilo of Italy, Zöblin of Germany and Dumez of France have won contracts worth ¥17.5bn (\$141m) for a dam project on China's Yellow River, agencies report.

The Xiaolangdi water control project, one of the main body, the flood-discharge structure and hydroelectric structure were awarded to a Yellow River joint venture. This comprises the three European groups and the Xiaolangdi joint venture.

The dam site is 40km north of Luoyang city in Henan province. China has borrowed \$670m (\$75m) from the World Bank, including \$460m for construction and \$110m as a soft loan to resettle thousands of residents. In total China plans to borrow about \$1bn from the World Bank.

'No clear winners and losers'

Industry cautiously welcomes OECD shipbuilding deal, writes Andrew Baxter

The world's main shipbuilding countries and shipowners yesterday welcomed the multilateral agreement to scrap subsidies, but differed on who would be the winners and losers.

Observers said that while anything that removed a distortion of free trade was a positive step, other factors such as the industry's manufacturing capacity and the state of the shipping market were more important influences on the supply and demand balance that dictated prices.

"We are very pleased. This is a solution that the US has been working to bring about for five years," said Mr. John Stocker, president of the Shipbuilders' Council of America. The agreement (which was negotiated at the Organisation for Economic Co-operation and Development) was not perfect, but would reduce government interference in shipbuilding and impose discipline on the industry.

Large shipowners, he said, would benefit as marginal owners would not be supported by subsidised prices. On the other hand, overall prices would have to rise, as they would have to reflect shipyard costs.

Shipowners accepted this was a likely consequence, but remained unflustered. The UK's Chamber of Shipping, which represents shipowners, said excessive subsidies caused too much ship-buying, which led to "over-tonnaging" - too many ships chasing too little freight business.

Mr. Nick Granger, director of the UK's Shipbuilders and Shiprepairers Association, said the effect on the UK shipbuilding industry would be broadly neutral, so long as the agreement worked as it should do.

It would not have been anyone's interests to allow a spiral of state aid to the industry.

planned by South Korea.

Mr. Granger also warned that, unless countries were in the OECD, their ships would not be covered by the agreement's mechanism to prevent injurious pricing. "The Chinese, Malaysians and others are all putting ships on to the market at cut-throat prices, which I don't think have much to do with reality."

According to Mr. Simon Quarrell, a consultant at KPMG Peat Marwick and author of a 1992 report on the competitiveness of European Union shipyards, the winners in the European shipbuilding industry would be the low-cost, high-efficiency yards which

could compete on a fair and equal basis with other yards, if that was allowed.

"These would be some yards in Germany, Denmark and the Netherlands, and individual yards across Europe, including Italy and France, where some yards are world-class in certain

at Rostock in Germany - was already considerably lower than many competitors.

The Finnish yards, for example, in effect get no subsidies. However, the new regime could make the going tougher for Kaermer's Govan yard, which has traditionally bene-

Taipei unveils parts deal for F-16

Taiwan will begin production this year of parts for US F-16 fighters under a \$40m contract with Lockheed, with more contracts expected to follow, Reuters reports from Taipei.

The US government had for the first time approved technology transfers by Lockheed for eight different parts for the F-16, said Mr. Jack Tang, deputy director of the cabinet's Committee for Aviation and Space Industry Development.

Software pirates jailed in Taiwan

Authorities in Taiwan have sentenced convicted software pirates to jail for the first time, the industry watchdog Business Software Alliance said, agencies report from Hong Kong.

Three computer dealers have been sentenced to 14 months by the Taiwan High Court after losing their appeal for selling illegal software. A fourth defendant received a seven-month sentence.

Taiwan's software was more than 80 per cent pirated at a cost of \$800m a year to software firms, the Alliance said.

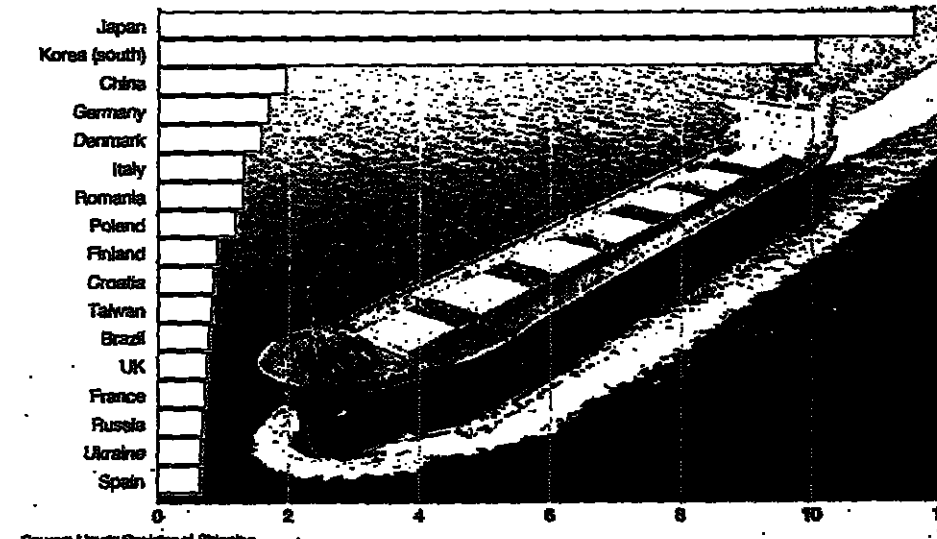
Honda to export from Canada

Honda has begun exporting Canadian-made Civic cars to Latin America and Asia, Reuters reports from Tokyo. Honda of Canada in Alliston, Ontario, will export 350 Civics to Brazil and 550 to Taiwan in the year to March 1995, the company said.

This is the first time Honda of Canada will export to markets outside North America. The company produces 100,000 Civics per year, of which 80,000 are exported to the US.

Leading shipbuilding nations

Order book totals at 31 March 1994 (millions of gross tonnes)



planned by South Korea.

Mr. Granger also warned that, unless countries were in the OECD, their ships would not be covered by the agreement's mechanism to prevent injurious pricing. "The Chinese, Malaysians and others are all putting ships on to the market at cut-throat prices, which I don't think have much to do with reality."

According to Mr. Simon Quarrell, a consultant at KPMG Peat Marwick and author of a 1992 report on the competitiveness of European Union shipyards, the winners in the European shipbuilding industry would be the low-cost, high-efficiency yards which

market sectors.

"But there are other yards which are effectively being buoyed up by subsidies that should be given the chance to go bankrupt."

Kvaerner, Europe's biggest shipbuilder, saw itself as a winner from the deal. "If this agreement is fully implemented, it will boost our shipbuilding potential significantly," said Mr. Diderik Schnitler, head of shipbuilding at the Norwegian company.

Kvaerner claimed its competitive position would be enhanced because the average subsidy for its yards - six in Norway, two in Finland, Govan in Scotland and Warnow West

fit from high subsidies.

The group also said it believed the OECD accord would enhance prospects for stability in the notoriously volatile shipping markets, because generous subsidy levels would no longer entice shipowners to order new vessels in the face of adverse markets.

There were contrasting views on what the agreement would mean for the US shipbuilding industry, which has been trying to reduce its dependence on defence work but has found it difficult to match subsidised prices offered by rival commercial yards.

Mr. Quarrell said the US ship-

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

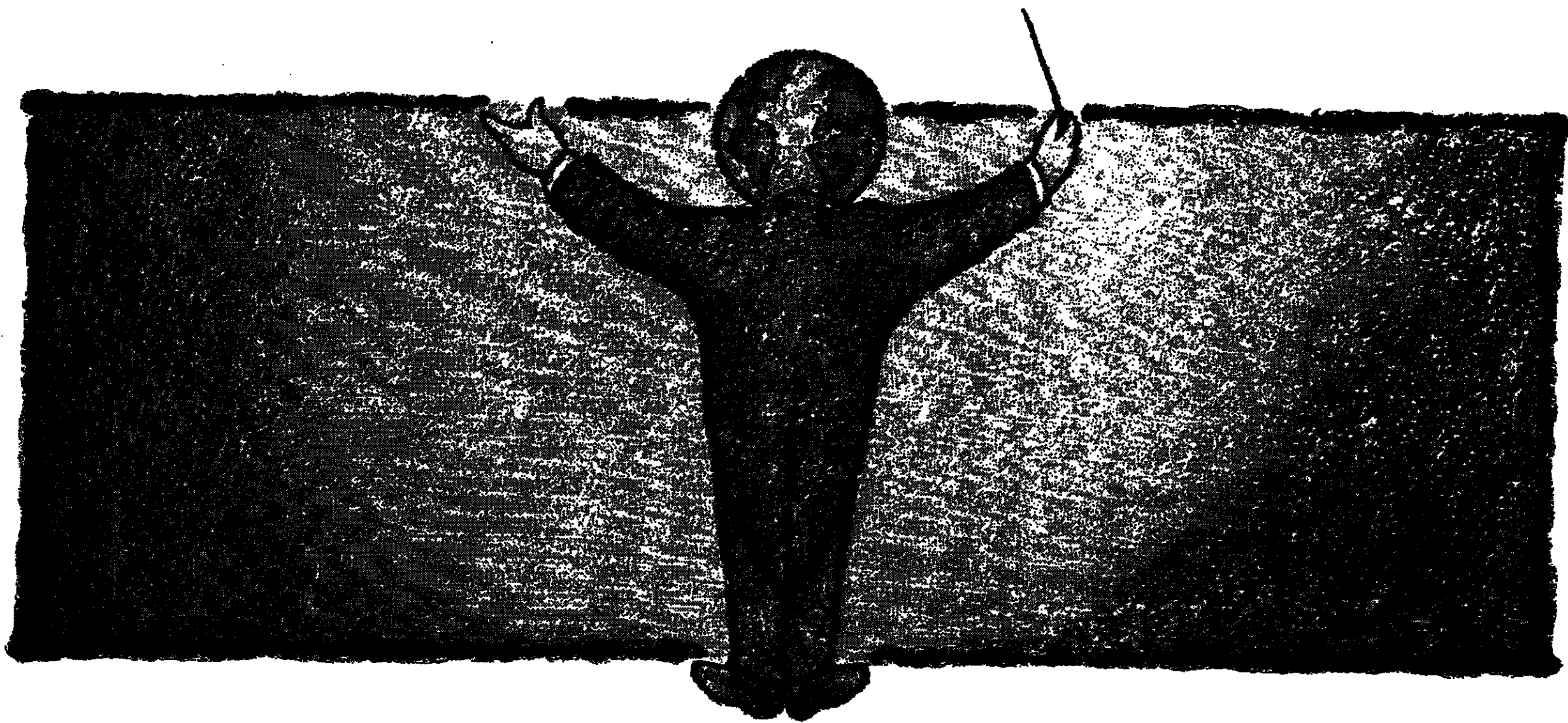
Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES					JAPAN					GERMANY				
Consumer price	Producer price	Wholesale price	Unit labour cost	Real exchange rate	Consumer price	Producer price	Wholesale price	Unit labour cost	Real exchange rate	Consumer price	Producer price	Wholesale price	Unit labour cost	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.8	102.2	98.4	85.0	100.8	95.3	101.4	105.4	118.4	99.9	97.6	103.8	107.4
1987	105.6	100.7	103.8	96.7	78.2	101.2	92.8	103.1	106.6	122.9	100.1	95.0	108.0	107.1
1988	108.6	103.2	108.9	99.1	71.0	102.2	92.3	107.8	99.2	131.0	101.4	98.2	113.0	106.9
1989	115.2	108.5	110.0	101.1	74.9	104.9	94.2	114.0	101.9	125.5	104.2	99.0	117.3	109.0
1990	121.5	113.8	113.8	104.3	73.4	108.2	95.7	120.1	98.3	108.3	107.0	101.0	122.6	110.3
1991	128.6	118.3	117.3	107.8	74.2	111.8	96.8	124.2	101.8	114.7	107.0	103.4	131.8	108.1
1992	130.4	117.7	120.1	108.1	74.2	113.9	98.5	125.5	111.2	107.8	113.5	104.9	136.6	109.5
1993	134.3	119.2	123.4	105.6	76.6	115.3	94.5	125.8	116.6	134.0	118.8	108.7	135.5	110.2
3rd qtr. 1993	2.8	0.7	2.5	-2.6	78.2	1.8	-1.8	0.4	4.4	140.7	4.2	-0.2	n.a.	1.6
4th qtr. 1993	2.7	0.3	3.0	-3.0	78.7	1.2	-2.1	-0.1	5.1	137.6	3.7	-0.2	n.a.	-1.7
1st qtr. 1994	2.5	0.2	3.0	-1.7	77.1	1.4	-2.2	2.9	4.3	137.8	3.3	0.2	n.a.	-2.7
2nd qtr. 1994	2.4	-0.3	3.5	77.3	1.5	1.4	-0.3	4.3	140.0	3.0	0.0	n.a.	-1.7	107.5
July 1993	2.8	1.3	2.5	-2.5	77.8	1.8	-1.7	-1.2	5.4	138.7	4.3	-0.2	n.a.	3.2
August	2.8	0.8	2.5	-2.6	75.9	2.0	-1.8	2.3	2.5	144.2	4.2	-0.2	n.a.	0.0
September	2.7	0.4	2.5	-2.7	75.4	1.9	-2.0	1.5	5.4	138.3	4.0	-0.3	n.a.	1.6
October	2.8	0.2	3.3	-2.9	75.9	1.2	-2.1	0.8	7.8	138.5	3.9	-0.2	n.a.	0.2
November	2.7	0.4	2.5	-2.2	77.0	0.9	-2.7	0.8	4.4	138.7	3.8	-0.2	n.a.	-2.3
December	2.6	0.2	3.3	-3.8	77.3	1.3	-2.2	-1.1	4.2	135.9	3.7	-0.1	n.a.	-1.0
January 1994	2.5	0.2	2.5	-1.9	77.8	1.4	-2.1	4.5	4.2	134.5	3.6	0.0	n.a.	-0.5
February	2.5	0.2	3.3	-1.9	77.0	1.4	-2.2	1.7	5.1	138.4	3.4	0.2	n.a.	-5.0
March	2.5	0.2	3.3	-1.9	76.5	1.3	-2.3	2.4	3.5	138.4	3.2	0.2	n.a.	-2.6
April	2.4	-0.4	2.4	-2.0	76.4	0.8	-2.2	1.8	141.4	141.4	3.1	0.1	n.a.	108.9
May	2.3	-0.4	2.4	-2.4	75.8	0.6	-2.0	1.8	139.2	139.2	3.0	0.4	n.a.	107.6
June	2.5	0.0	2.4	-2.4	75.1	0.5	-2.0	1.8	139.3	139.3	3.0	0.4	n.a.	108.1
FRANCE					ITALY					UNITED KINGDOM				
Consumer price	Producer price	Wholesale price	Unit labour cost	Real exchange rate	Consumer price	Producer price	Wholesale price	Unit labour cost	Real exchange rate	Consumer price	Producer price	Wholesale price	Unit labour cost	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	102.5	97.2	104.5	101.5	103.4	108.1	100.2	104.8	102.7	101.3	103.4	101.4	107.7	104.1
1987	105.9	97.8	107.8	103.0	104.8	111.0	103.2	111.8	105.6	102.0	107.7	104.9	116.3	106.6
1988	108.6	102.8	111.1	104.0	102.2	115.6	108.8	118.4	107.7	100.2	113.0	107.7	126.2	108.5
1989	112.6	108.4	115.4	105.3	89.8	124.2	113.1	125.8	112.9	103.6	121.8	113.8	127.2	114.4
1990	118.5	107.1	120.6	108.5	102.6	131.6	117.8	134.7	118.8	108.2	133.3	121.0	150.1	122.7
1991	120.1	105.9	125.1	113.1	102.2	140.3	121.7	147.9	131.3	105.5	141.2	127.5	162.4	131.8
1992	123.1	104.0	130.3	116.6	102.2	147.7	124.0	155.9	135.8	101.9	148.4	131.5	178.1	134.0
1993	126.6	101.1	133.7	108.5	108.5	153.9	128.7	161.2	139.4	87.3	148.7	136.7	180.9	134.5
3rd qtr. 1993	2.2	-3.4	n.a.	108.5	4.3	4.3	4.1	2.1	87.9	1.5	4.3	4.4	1.3	97.1
4th qtr. 1993	2.1	-2.2	n.a.	107.7	4.1	3.9	3.8	-1.4	85.7	1.8	3.9	3.9	1.7	97.1
1st qtr. 1994	1.7	-1.5	n.a.	107.5	4.2	3.6	4.2	85.1	85.1	2.4	3.3	4.0	2.0	98.9
2nd qtr. 1994	1.7	n.a.	n.a.	107.3	4.0	3.7	4.2	87.3	87.3	2.6	3.1	4.0	2.0	98.9
July 1993	2.1	n.a.	n.a.	106.7	4.4	4.2	4.1	n.a.	88.7	1.4	4.2	5.0	1.0	97.4
August	2.2	n.a.	n.a.	105.4	4.2	4.4	4.1	n.a.	87.9	1.7	4.3	3.6	1.1	97.2
September	2.2	n.a.	2.3	n.a.	87.5	4.2	4.3	4.2	n.a.	87.0	1.8	4.3	4.5	1.8
October	2.2	n.a.	n.a.	107.4	4.3	4.1	3.8	n.a.	86.6	1.4	4.0	3.8	2.2	98.2
November	2.2	n.a.	n.a.	107.0	4.2	3.9	3.9	n.a.	85.6	1.4	3.8	4.0	1.9	97.1
December	2.1	n.a.	2.2	n.a.	106.5	4.0	3.7	3.8	n.a.	84.7	1.9	4.0	4.0	1.1
January 1994	1.9	n.a.	n.a.	107.5	4.2	3.5	4.0	n.a.	85.2	2.5	3.7	4.8	1.8	98.8
February	1.8	n.a.	n.a.	106.8	4.2	3.6	4.3	n.a.	85.5	2.4	3.4	4.4	1.8	98.2
March	1.5	n.a.	2.0	n.a.	107.9	4.2	3.2	4.5	n.a.	84.8	2.5	3.2	4.4	2.0
April	1.7	n.a.	n.a.	106.5	4.1	3.0	4.8	n.a.	87.4	2.8	3.2	4.7	0.9	98.9
May	1.8	n.a.	n.a.	107.3	4.0	3.7	4.5	n.a.	87.7	2.5	2.1	4.0	1.7	98.7
June	1.8	n.a.	n.a.	106.1	3.7	3.6	4.5	n.a.	86.5	2.6	2.0	4.0	1.7	98.9

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NEWS: UK

Irish government annoyed by Sir Patrick Mayhew's comments over territorial claim

London and Dublin clash on Ulster

By Tim Coone in Dublin

Sharp differences have emerged between the British and Irish governments over whether the Irish Republic's territorial claim to Northern Ireland is now the key obstacle to the stalled Northern Ireland peace process.

The Irish government has responded with annoyance to an interview published yesterday in a British newspaper by Sir Patrick Mayhew, the Northern Ireland secretary, in which he emphasised that the Republic's territorial claim to the province was now the central issue to be resolved in drafting a joint "framework document" designed

to encourage Northern Ireland's political parties to return to the negotiating table.

An Irish government spokesman emphasised that any new constitutional arrangement for the province must be "balanced". He said "What we are seeking is a balanced constitutional accommodation as expressed in the (Downing Street) declaration, not some constitutional one-way street".

Last Friday in Brussels, the Mr John Major and Mr Albert Reynolds, the British and Irish prime ministers respectively, agreed to postpone a planned July summit on Northern Ireland until the autumn to allow themselves more

time to resolve their differences in drafting the document.

Mr Dick Spring, the Irish foreign minister said yesterday he was "surprised" at the comments attributed to Sir Patrick, and that he did not agree that the Republic's territorial claim was now the central issue.

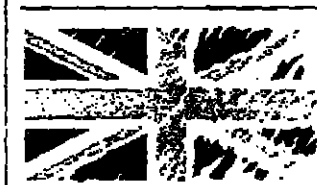
He said a "number of issues remain to be resolved, and all of those will have to be resolved together. I don't think it is helpful to highlight one aspect of negotiations... there is little point in solving problems on one side if you leave more problems on the other side". He said "a far wider" solution is needed.

Dublin has repeatedly emphasised that the 1920 Government of Ireland Act, which establishes Westminster rule over Northern Ireland, should be modified as a "quid-pro-quo" for modifying the Republic's territorial claim.

Mr Dermot Aherne, the Fianna Fail co-chairman of the Anglo-Irish joint parliamentary body, yesterday accused Sir Patrick of trying to "cherry-pick" aspects of last December's Downing Street declaration.

Sinn Féin, the political wing of the IRA, announced that its special delegate conference, at which a formal response to the declaration will be decided, will be held on Sunday.

Britain in brief



Hardboard factory for south Wales

A £40m hardboard factory is to be built in south Wales in the largest UK manufacturing start-up yet to be backed by venture capital.

Tech-Board, the new company, will make the first hardboard in Britain for five years, since the closure of UK Paper's elderly factory at Kemsley, Kent. The new plant is expected to create 200 jobs and will use home-grown wood.

With a capacity of 88,000 tonnes per year, the factory could meet about half of the UK's current requirements for hardboard, which is principally used in the furniture, automotive and building trades. The company also intends to export to continental Europe.

Mr Malcolm Graham, the general manager of UK Paper's hardboard division, spent at least five years since the Kemsley plant closed putting together the financing package that was agreed yesterday.

A syndicate of UK and international banks and venture capital houses includes 31 which will be represented on the board.

The Welsh Office is providing a £3.4m grant and additional finance comes from Gwent county council and £250,000 of loan and equity from British Coal Enterprise, the corporation's job creation arm. The 12-acre factory site is reclaimed mining land on an industrial estate near Ebbw Vale. Male unemployment in the area is 20 per cent.

Ulster cable plan refloated

The Independent Television Commission is planning to try again to bring cable television to Northern Ireland more than 10 years after the first experimental licence was awarded.

The ITC is expected to advertise a licence, or licences, in the autumn and has not ruled out the possibility of advertising a single licence covering all of Northern Ireland and not just Belfast and its surrounding area.

If a single licence is advertised covering the more than 500,000 homes in the province it would be one of the largest cable television franchises in the UK on a par with other major franchises such as the West Midlands.

Protests stop Brontë project

Plans to erect wind turbines in the heart of the moors made famous by the books and poems of the Brontë family country have been dropped.

Nine were planned for Haworth Moor - setting of Emily Brontë's classic *Wuthering Heights* and where she often played with her sisters and brother.



The government announced plans to restore the skyline of Westminster to its Victorian glory by demolishing three 21-storey ministerial buildings which stand behind parliament.

But after objections flooded in from as far afield as America and Japan, councillors in Bradford, West Yorkshire, rejected the proposals.

Thabo Mbeki to visit London

South Africa's deputy president Thabo Mbeki is to visit London on Wednesday and Thursday. He will meet John Major and lunch with the Queen, according to the Foreign Office.

Pupils 'lose day a week'

Some pupils lose the equivalent of one day per week in the classroom because of variations in the length of the school day, according to school inspectors.

They found the total time spent in school varied by 4.1 hours per week in primary schools and by eight hours in secondary schools, according to a report by the Office for Standards in Education. Recommended taught school weeks are 21 hours for five to seven-year-olds, 23.5 hours for those aged eight to 11 and 24 hours for secondary school pupils.

Company code for Exchange

The London Stock Exchange unveiled new rules designed to make it easier for small companies which have been listed on its Unlisted Securities Market to obtain a full Stock Exchange listing.

The new rules are necessary because the USM is slated to close at the end of 1996 and will not accept any new companies from the end of this year. The decision to close the USM followed the recession in the early 1990s during which trading in the smallest companies came almost to a standstill. The Exchange agreed in early 1993 that the USM was not a viable mechanism to ensure investment in smaller

companies. Earlier this year, the Exchange announced a seven-point plan to encourage interest in small companies but rejected a call from one of its own advisory panels for an independent small companies exchange.

Motorway toll plan still on

Mr Stephen Dorrell, chief secretary to the Treasury, told a select parliamentary committee on transport that the government definitely intended to proceed with direct charging for motorway use, probably through electronic pricing.

However, he could not put a date on when charging would come into effect or how much it could be expected to raise.

He told the committee, which was chaired by Mr Paul Channon, the former Conservative transport secretary, that the charges would be in addition and separate from existing taxes. He said the hope was the charges would be ring-fenced and spent on motorways.

A government discussion paper earlier this year issued by Mr John MacGregor, the minister for transport, said that direct charging for motorways could raise £11bn a year although this would depend on the level of tariffs.

Mr Ian Wilson, a Treasury official, also speaking to the committee, said that taxes on transport raised £22.4bn a year, including VAT on fuel and road tax. This was far in excess of the money spent on motorways alone but the £22.4bn went into an integrated budget.

Asda pledge in price war

Asda, the UK's fourth-largest grocery retailer, is stepping up the supermarket price war with a new promise to refund the difference on a basket of goods if customers can buy the same goods more cheaply. The pricing initiative will be backed by a national advertising campaign.

British Gas plans cut price incentive

By Robert Corzine and David Lascelles

British Gas intends to cut prices to its best residential customers during the run-up to the introduction of competition in 1996 in a move which could also result in higher charges for millions of other households.

The price differentials between customers are likely to emerge as the company lifts cross-subsidies. British Gas claims that 2m-3m of its most profitable domestic customers subsidise much larger numbers of problem payers and those who use relatively small amounts of gas.

It is thought that 5m customers might benefit from lower prices, but as many as 8m households could be hit by increases.

Company officials say the "re-balancing" of costs might occur abruptly if the government sticks to the present timetable for ending its monopoly over the sale of gas to 18m households beginning in 1996, with full liberalisation due in 1998.

A six-12 month delay in the first phase of competition, which British Gas has proposed in order to ensure that its computer systems have been upgraded and tested prior to deregulation, would enable it to introduce price changes more gradually, officials said.

It might also be able to offer packages to induce a change in behaviour among the 2m-a-year late or non-paying customers. These could include incentives for customers to pay by direct debit.

Officials say the late payment problem is so large because disconnection procedures are cumbersome. They say that gas bills get paid last, after electricity.

The company yesterday said it was committed to competition, and wants to see the necessary legislation included in the Queen's Speech this autumn. But it also wants to ensure that the re-balancing of its cost base is completed before its monopoly is lifted.

Ofgas, the gas industry regulator, yesterday said a re-balancing of costs between consumers would require its approval. It would also have to take place within the complex pricing formula set by the regulator - a cap based on the retail price index minus 4 percentage points.

But the regulator confirmed that British Gas has a right to raise prices for different market segments if it can show that it is not recovering the costs of serving such customers.

British Gas executives say they have little faith in Ofgas' ability to prevent independent gas marketers from targeting its best customers, while avoiding the millions of small customers or problem payers presently unprofitable.

Treasury on course to cut public borrowing to £36.1bn

By Peter Norman, Economics Editor

The government's budget deficit fell to a lower than expected £2.96bn in June from £3.4bn in May, indicating that the Treasury is well on course to achieve its recently set target of £36.1bn for the public sector borrowing requirement (PSBR) in the financial year to the end of March 1996.

The Treasury and Central Statistical Office reported yesterday that the PSBR fell to £1.4bn in the three months to the end of June from £1.4bn in the first three months of the 1993-94 financial year.

Yesterday's figures had no impact on financial markets. But economists were impressed. Mr Michael Saunders, UK economist for Salomon Brothers International, said that the scale of improvement in the fiscal deficit is likely to be sustained over the rest of 1994-1995. "Assuming that the November Budget does not shift the fiscal stance, the PSBR could be down to £2.5bn or 3.5 per cent of GDP in 1995-96" compared with £45.9bn in 1993-94, he said. This would be "among the smallest deficits in the European Union".

Excluding last month's privatisation proceeds of £180m from the sale of Northern Ireland Electricity shares, the PSBR in June was £3.04bn. Without privatisation income, the deficit shrunk by £3bn to £11.9bn in the three months to the end of June from £14.9bn in the same period of last year.

The June deficit was markedly lower than the £3.7bn consensus forecast. The Treasury said early tax payments by the self-employed ahead of a July 1 deadline boosted government revenues. Income tax receipts jumped to £5.53bn in June from

Retailers look to build on year's best sales

British retailers achieved their best sales so far this year in June and are looking for further robust sales growth this month compared with a year ago, the Confederation of British Industry reported, Peter Norman writes.

The latest distributive trades survey from the employers' organisation, suggested that April's tax increases have yet to make a significant adverse impact on consumer spending.

The survey of 502 retailers, wholesalers and motor traders between June 14 and July 6 found that retail sales volumes bounced back from a disappointing performance in May and increased more than expected last month compared with June last year.

Of the 302 retailers polled, 48 per cent said

sales were up compared with a year ago, 21 per cent said they were down and about 30 per cent said they were unchanged.

The resulting balance, which the CBI considers a good guide to the trend of sales, was a positive 27 per cent compared with 12 per cent in May, and the highest since December last year when on balance 34 per cent of retailers said sales had risen.

In the previous survey, a balance of 22 per cent of retailers said they expected sales to rise in June. Only motor traders appeared to experience less than buoyant trading conditions last month.

Elsewhere, a balance of 64 per cent of wholesalers reported sales up on a year.

same three months a year ago, while customs and excise receipts advanced by 7 per cent to £17.1bn.

Cash outlays were £20.6bn in June and £22.4bn in the first three months of the financial year, up 1.8 per cent on spending of £21.4bn in the equivalent period of 1993-94. However, these were boosted by higher interest payments and lower privatisation proceeds, which count as negative expenditure.

Net departmental outlays in the three months fell 1.5 per cent compared with a year ago. Cash receipts were £17.1bn in June and £50.5bn in the first three months of 1994-95 to show a 4.3 per cent rise compared with £48.4bn in the same period last year.

Inland revenue receipts, at £17.3bn in the quarter, were up 9 per cent compared with the



Sailors from the State Marine Academy of Russia adjust the sails of the "Sedov", a four-masted barque built in 1921 which is entered for the Tall Ships race. The race begins in Weymouth on Britain's south coast tomorrow.

Government backing for use of teleworking

By David Goodhart, Labour Editor

The British government yesterday gave its most enthusiastic endorsement to date of teleworking - using information technology to work from home - and promised to review any regulations and restrictions which prevent its growth.

Mr David Hunt, the employment secretary, said: "We need to know of any areas where legislation or its interpretation is creating special difficulties for telework so that we can deal with them".

He also revealed that Whitehall has established a Teleworking Special Interest Group to serve as a contact point for all with interests in the subject.

Mr Hunt, who was speaking at a seminar organised by the Social Market Foundation and 3Com, the US telecommunications company, said that a recent Department of Employment survey found that one in 20 British companies employ teleworkers.

The Henley Centre for Forecasting has estimated that there will be 3.3m teleworkers in Britain by next year, or about 4.6 per cent of the workforce, and

some estimates say that 10-15 per cent of the workforce in many developed countries will be teleworking to some degree by the end of the century.

Mr Hunt said: "Teleworking can have great benefits but it can also have pitfalls. We need to learn from experience, so the pitfalls can be identified and avoided."

Mr Hunt said that the employment department survey found a high level of satisfaction among teleworking managers, with over three quarters "very satisfied" with their present teleworking arrangements.

The main reasons they gave for this, according to Mr Hunt, were higher productivity, higher reliability and work quality, high staff loyalty and lower staff turnover.

Ms Janice Roberts, vice-president of 3Com, speaking at the same conference, said that studies in California had found that teleworking increased productivity by between 15 and 20 per cent. She also said that if it was necessary to mix working from home with coming into an office, the best balance is usually three days at home and two days in the office.

Review aims to build constructive relationship

Andrew Taylor on plans to overhaul Britain's building practices

Wide-ranging proposals to reduce contract abuses and improve services could cut construction costs in Britain by 30 per cent by the end of the century, according to a radical review of the industry published yesterday.

The independent review sponsored by the industry and government called for new legislation to improve payment and and disputes procedures.

A Construction Contracts Bill would require independent adjudicators to be appointed to resolve conflicts reducing the need for costly litigation. Trust funds would hold contract cash to protect companies, should customers or contractors fail.

The bill also would allow sub-contractors to charge punitive interest for late payments.

The measures would be expected to become standard features of all construction contracts.

The Environment Department, which is thought to strongly support the recommendations, is due to publish its response next week. The review, led by Sir Michael Latham, a former Conservative MP and ex-director of the Housebuilders Federation, was the biggest inquiry into the industry since the Branwell report in 1994.

It calls for the formation of a powerful new industry steering group - led by the environment secretary - which would assist in the development of new contract forms and man-

agement practices.

A new code of practice to be sponsored by the environment department would act as a guide to private and public sector customers establishing a well defined framework of management and contractual responsibilities for a wide range of jobs.

A plan to establish a new agency to oversee the implementation of the proposals, similar to the Australian Construction Industry Development Association, could be considered, says the report.

The Australian agency which has representatives from the government, industry, building owners and occupiers and unions, has set a sim-

ilar cost-reduction target from improved efficiencies.

The almost universal praise with which the construction industry and its customers greeted the Latham Review indicates broad support for its proposals.

The cost of building an office block is estimated to be 30 per cent higher in the UK than in the US. Repeated arguments between different parts of the UK industry, over whose fault this is, reflected the atmosphere of conflict.

It was in a bid to encourage a less adversarial climate that the independent review of construction management and practices, the first for 30 years, was sponsored by the industry

and the Environment Department last year.

The department is expected to play a central role in developing new contract forms and codes of practice intended for adoption by public and private-sector purchasers.

Legislation would be supported by a new code of practice, backed by construction employers and customers and sponsored by the Environment Department. Its aim would be to promote closer co-operation between various construction disciplines and to provide a checklist of management responsibilities which could be incorporated into contracts.

Public bodies would be encouraged to introduce more

efficient tendering procedures. Companies and consultants would be required to complete a single form to qualify for public-sector contracts. If accepted they would be placed on a national register of approved companies. A star system based on performance might be incorporated, said Sir Michael.

The move would bring Britain into line with continental European countries which require companies to be registered with an EU approved body before they can tender for work. Companies appearing on registers would pay a small levy to pay for the cost.

The target of the review says Sir Michael is to reduce construction costs by 30 per cent and end the climate of mistrust in the industry.

Building society bars sales staff pending training

By Allison Smith

Nationwide Building Society, the UK's second largest, yesterday barred its 1,300 authorised financial services staff from giving advice in this area until a re-training programme has been completed.

The ban will affect staff at around two-thirds of the society's 1,000 outlets. Nationwide is planning to launch its own life insurance and unit trust subsidiaries next year, but currently acts as an agent for Guardian Financial Services, part of Guardian Royal Exchange.

The move follows a routine inspection visit by Lauto, the life insurance industry's regulator, to Guardian Financial Services and its agents.

On the day that Lauto took a further step towards extinction as the Personal Investment Authority - the new watchdog for the personal investor - became operational, the announcement was a reminder that the existing regulator had been growing in effectiveness.

Nationwide said yesterday that the Lauto visit had revealed some shortcomings in its supervision of financial ser-

vices staff, and that it was taking the opportunity to enhance training more generally.

Mr Brian Davis, chief executive designate, said Nationwide's action had been taken voluntarily, and was a sign of its commitment to high standards of service.

In March, Norwich Union, one of the UK's largest insurers, suspended its entire life and pensions sales force for a month after Lauto identified breakdowns in management controls.

The 650 or so Nationwide staff dedicated entirely to financial services products will go through an intensive training programme, and the first groups to go through this process will be able to offer advice again from early August. The full process is expected to take eight to nine weeks.

Plans for the remaining authorised staff, such as branch managers, have not yet been finalised, but it is possible that the numbers who are authorised will be reduced.

Mr Davis said he did not believe that Nationwide had misled any of its financial services customers, but that any customer who was concerned should contact the society.

Japan's People World

Saburo Goto hopes that in a few years' time it will become second nature for many of his fellow Japanese at home and abroad - to use personal computers for buying goods, ordering services such as restaurant tables and even finding out about medical care.

In a country where PC use is far lower than in much of the west - Japan has only a third as many PCs per head as the US, though ownership is rising steadily - the race to link homes and businesses to a variety of electronic and multimedia-based services is speeding up.

As head of IBM Japan Services Business Company, Goto is involved with the US group's attempt to penetrate the still small local market for PC-based network services, using locally-developed software to cope with the complex Japanese language. With Mitsubishi Corporation, Hitachi and Toshiba, it has set up People World to encourage greater private use of PCs in Japan.

The system will be easy to use, says Goto. "It is not necessarily aimed at professional people but also at housewives and older people." It will compete with PC-Van (run by NEC, the Japanese electronics group) and NiftyServe (run by an affiliate of Fujitsu computers).

By 1999, IBM hope to have more than 1.5m users of People World. The other services now have about 1.3m between them. People World is working with such providers of content as Hamako, a women's leisure magazine which will offer shopping information about sales and promotions in the Tokyo area.

"That kind of information is very important to improve the standard of living," believes Goto. "But equally important is medical information - the older we get, the more we need special services. Since Japanese hospitals are closed at weekends - except for emergencies - People World will also tell users where to turn for their unexpected healthcare needs."

Andrew Fisher

From the beginning of next year, telephones in the office and in the home could be leaking information about our lives as we sleep.

The information they will relay is likely to concern our energy consumption and how much water we use, and the callers they will be "talking to" will be the utilities that bill customers for these services.

Up to 150 residents in Doncaster, in the north of England, are taking part in a trial in which their telephones are used to read their electricity and water meters. The trial, which runs until the end of the year, is a joint project between Yorkshire Water, Yorkshire Electricity, British Telecommunications and Schlumberger Industries.

The latter supplies the meter interface unit (MIU) which converts the data from the meters to a central database via the telephone network. A subscriber line access controller (Slac) calls the MIU when instructed by the companies' computers to read the meters. Four ports on the MIU enable four different meters to be read. The Yorkshire trial is using just two.

The trial uses technology developed by BT which enables the telephone lines to convey data without ringing. The aim is to leave customers blissfully unaware that their telephone lines are involved in any activity. If a customer uses the telephone while the meter is being read, the call from the utility will automatically end. No call from an electricity company will delay a call for an ambulance, for example.

The introduction of the no-ringing facility, which negates the usual ringing current of normal calls, has required a big investment by BT and involved large-scale infrastructure changes. The costs of installation have been kept down because the facility has been installed at the same time as other BT developments, such as being able to identify a caller. Changes both to the telephone exchanges and the software used in digital exchanges have been implemented.

BT plans to install this "no-ringing" facility on most of its 25m lines before the start of next year when it will be available for commercial use. Future applications could include equipment monitoring and control for photocopying machines and a "home automation" system whereby heating, lighting and security can be checked automatically.

But, says Andrew Batchelor, services development manager at BT, "We are focusing on the utility sector as our first market. This is because the utilities have a more pressing requirement to have some technology available to help them out of a commercial difficulty."

This "pressing requirement" felt by the water and electricity industries is the need to cut costs before



Calling for water: Doncaster residents will be the first to use the new meter system

Dial M for meters

Jane Martinson reports on a trial scheme to measure water and energy consumption by telephone

forthcoming large-scale reviews by industry regulators. Both reviews will consider pricing controls and will take into account the companies' ability to cut costs and improve efficiency.

The ones after the reviews will be on both industries to prove to investors that they can still increase dividends based, among other things, on continuing to cut costs.

The Yorkshire trial is one of a number involving utilities, particularly electricity companies, and automatic meter reading. Joint ventures such as the one in Yorkshire

also point to a move towards multi-utilities with one company providing both electricity and water.

A few smaller multi-utilities in the US are testing the use of telecommunications for meter reading. But Peter Harrie, marketing manager at Schlumberger Industries, says the scale of the potential market in the UK - which has some of the biggest utilities in the world - makes the Yorkshire trial particularly exciting.

The City appears to be watching signs of such closer co-operation with great interest. Robert Miller

Bakewell, utilities analyst at NatWest Securities, predicts that there will be seven multi-function utilities in the UK by 1997. "We will see a move towards more multi-function utilities in the UK, perhaps along the lines of those in the US but probably bigger. One of the things driving this forward is the need to cut costs and eliminate the overlap."

Nigel Hawkins, analyst at Hoare Govett, also foresees closer co-operation at both operating and management levels. "In terms of billing, for example, telecoms must be in a pole position for utilities."

But there are still a number of questions concerning the cost-effectiveness of automatic metering. The meters used in this system are more expensive than traditional ones and costs will not come down until they are produced and used in bulk.

Most industry analysts accept that the "man in a van" system with an engineer making regular, if infrequent, readings will remain cost-effective until "special" reads need to be carried out. These include returns to homes where nobody was in or an address change.

Having a qualified member of staff visiting premises has other advantages, although as Harrie says: "Some people find it difficult arranging a convenient time for their meter to be read and others don't like strange people coming into their homes anyway."

Proponents of the scheme argue that "added value services" should be added to any cost benefit analysis. For utilities' customers, improvements could include the elimination of estimated bills, immediate informed response on queries and complaints, and flexible tariffing and billing. The electricity industry already sells energy to big industrial users in 30-minute lots that could be accurately gauged with such advanced metering.

The system will also enable water companies to detect leaks more easily and to prepare load profiles of customers.

A shared billing system between the water and electricity companies could lead to shared information about bad-debt customers. In the Yorkshire trial, each utility has access only to its own meters but the possibility of utilities sharing information is likely to cause alarm.

"This is certainly a complex subject, which is why nobody is rushing into it and why we're having trials to see how customers react to having their phones used in this way," says Batchelor.

"We're taking this fairly slowly, although we have been impressed by the reaction so far," he adds.

Yorkshire Water is also tentative. "Our main aim is improving services. We are not doing this purely for the sake of new technology."

Technically Speaking

When IT fails to measure up

By Tom Foremski

The value of information technology is rarely questioned by users these days. In schools and businesses, the belief is widespread that computers make classrooms more effective and offices more productive.

The uncomfortable fact that vast investments in computers have shown only modest, or, in some cases, no productivity increases is often dismissed as an irritating measurement problem.

The US National Research Council said at the end of last year that US service companies spent at least \$750bn (£493bn) on communications systems, computer hardware and software in the 1980s. During this period, their annual productivity gain was a mere 0.7 per cent. Many other studies also indicate that the correlation between IT spending and productivity increases is barely measurable.

The general reaction to such studies is that the data is wrong or has been misinterpreted; or there is serious mismanagement of IT. It is true that the economic data is often difficult to collect, but it should be difficult not to notice an impact on the economy from such a large investment.

This has become known as the productivity paradox, and there have been many attempts to analyse economic data in different ways to reveal the productivity that such large investments in computer technology must have made possible.

If it is difficult to discern what the broad benefits of IT are, how can the smaller issues be evaluated? How does a manager decide whether investing to upgrade a company's PC systems to faster computer models, or to install improved software, will be rewarded through greater productivity?

It is this lack of effective measurement of the benefits of investing in computer technology that forces many companies to make the equivalent of a leap in the dark when making significant investments in IT. One senior executive at a leading US bank

describes the decision-making process as being based on a "gut feeling". It seems strange that a Fortune 100 corporation would make important business decisions by instinct but, lacking other measures, it may be as good as any other yardstick.

The computer industry rarely mentions the productivity paradox. Computer companies routinely talk about increases in productivity, but these claims are made within the context of the technology. A new word processor is described as performing more quickly or data from a large database as being retrievable in less time. These measures of productivity are reassuringly self-validating but do not address the larger question of how IT should be used to increase productivity.

Clearly, this question can be answered only by IT users. And the answer to the productivity paradox lies within itself. The paradox begins with the assumption that IT improves productivity and yet we do not see the results. Surely the answer is that IT is like any tool and its effectiveness is determined by the user.

Lester Thurow, the US economist, believes that many corporations have misapplied IT. They have made large investments in IT without fully understanding how that technology should be used within the organisation.

Many organisations allow departments to buy PCs and software with little control over which software packages are used and how those systems are applied. Thus employees find that computers allow them to do more work of different kinds. But there is often little or no distinction made as to whether that work should be done in the first place.

Unless IT is managed with discipline and serious rethinking by companies about how they operate, its effects on the bottom line will not only be negligible but may be harmful. Organisations which solve the productivity paradox by focusing on strong management and appropriate use of IT will gain competitive advantage and unleash the true power of computer technology.

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4 45-54

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6 65+

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99 None

PEOPLE

John Richardson collects his ticket from Sketchley

Sketchley, the dry cleaning and photo processing group, yesterday announced that John Richardson, joint executive deputy chairman, would leave the company when his contract expires at the end of October.

Richardson, 51, and Tony Bloom, the other joint executive deputy chairman, joined Sketchley in 1990 when it was losing £800,000 a month and heavily overleveraged. The two are credited with bringing it back from the brink.

Richardson says he is leaving because "the job is done" and because he wants to return to Asia. Australian-born, he spent 18 years in Hong Kong with Hutchison Whampoa. He

will be returning to Hong Kong to join BZW and Barclays Bank as chairman of their Asian operations.

Richardson says he and Bloom worked in tandem, selling off businesses with no future, rationalising the company's structures and introducing stricter controls on working capital. But most important, he says, was that they introduced a strong management team.

Through the successful management merger of dry cleaning and Supasnap, which involved the closure of many unprofitable shops, they significantly reduced the group's retail operating costs. Supasnap, the photo processor, was

acquired for a total cash payment of \$6m in 1993.

During the past financial year, Supasnap offset a difficult year in the core dry cleaning business. In June Sketchley reported pre-tax profits up by 6 per cent before exceptional losses to £5.1m in the year to April 1.

The new division contributed £1.4m to operating profits of £6.6m. Excluding Supasnap, sales fell by 3 per cent to £101.4m.

Bloom will remain as an executive deputy chairman but will step into a non-executive role once a new chief executive has been found. He says he has no immediate plans to leave Sketchley.



Triplex Lloyd, the Midlands-based engineering group, completed a management reshuffle with the appointment, announced yesterday, of Graham Lockyer (above) as group operations director. He put his feet under the desk on Monday last week.

Lockyer, 47, is an experienced engineer who was managing director at Dowry Aerospace Landing Gear. He joins the ranks of Dowry senior executives, like Bruce Ralph, now managing director at Glynwed, who have wandered off into Midlands manufacturing posts since the takeover by TL.

His appointment at Triplex Lloyd follows the departure last December of Norman Price, development director but in charge of operations. Since then, Triplex Lloyd has swept away a tier of divisional management and Lockyer will have responsibility for all operations, reporting to John Foley, the managing director.

The London Securities board of directors has effectively been turned over to its 29 per cent shareholder, yesterday an extraordinary general meeting put forward a third Nu-Swift director to its four-man board.

André Chudnoff, a long-time associate of Nu-Swift's majority shareholder Jacques Murray, was voted on to the board at a meeting which was initially called to vote on the removal of the company's chairman and executive director.

This move was forestalled by the resignation earlier this month of David Pearl and Richard Prickett. Chudnoff said London Securities did not expect to pay any compensation for their resignations.

Michael Evans, a director of Nu-Swift, was appointed non-executive chairman last Wednesday, and Jean-Jacques Murray, another Nu-Swift director, joined as an executive director earlier in July.

Nu-Swift, the parent company, was only privatised in March, but it is planned that London Securities will act as its listed property arm.

Proposals are currently being finalised for the acquisition of a number of Nu-Swift properties by London Securities, in order to reactivate it from its current position as a cash shell.

Two independent directors are due to be appointed to the board later this month.

Wellman, the specialist engineering company, yesterday announced a management overhaul as part of its £6m

acquisition of three subsidiary businesses from FKI, the electrical engineering and components group.

Geoffrey Iley, the 64-year-old non-executive chairman, said the six-man Wellman board would be augmented by three new executive directors to oversee the expansion.

They will be led by Barry Jameson, 49, currently group managing director of FKI's retail controls division. Jameson, who has overall control of two of the FKI subsidiaries being sold, has been named managing director of the transport and technology division at Wellman.

He will be joined on the board by Tony Fletcher, 44, who replaces Jon Smith, 46, as finance director.

Fletcher, who was recruited from his own consultancy business, is a former finance director and company secretary at Mono Group, the pumps business. Smith, meanwhile, is to become a divisional finance director within the Wellman group.

The company has also promoted Roger Hamcor, 45, currently managing director of Wellman Furnaces and Wellman Process Engineering. As a board director, he will oversee the process engineering division.

The shake-up is thought to have been masterminded by Alan Baxter, who joined Wellman last November as chief executive.

Baxter, 43, was an FKI director until June 1992. Acquisition, Section II

Non-executive directors

David Jones, chief executive of Sharelink Investment Services, at the LONDON STOCK EXCHANGE.

Peter Davis, director general of the National Lottery, at PROVIDENT FINANCIAL.

Keith Ackroyd, md of Boots' retail division, at TAKARE.

Hugh Freedberg, chief executive of HUI Samuel, at MACQUARIE BANK.

John Bishop, former chief executive of Eagle Star, at DOMESTIC & GENERAL GROUP.

James Rawson has resigned from JAMES WILKES.

Keith Ackroyd, md of the division of Boots responsible for Halifords, at COWIE GROUP.

Charles Clarke has retired from SHIRES INVESTMENT.

Jim Butler, retired senior partner of KPMG Peat Marwick, at NICHOLSON GRAHAM & JONES.

Wolfgang Weller, a member of the managing board of HUK-Coburg Insurance Group, at EUROPEAN SMALLER COMPANIES; Olivier Lecoq has resigned.

Tan Sri Raja M. Ahas, chairman of the Federal Land Development Authority (Felda) in Malaysia and of the Malaysian International Shipping Corporation Berhad, at YULE CATTO; Mason Nelson has retired.

Andrew Davidson has resigned from MOSAIC INVESTMENTS.

Sir Richard Morris, chairman of UK Nirex and former chairman and chief executive of Brown and Root (UK), as chairman designate at NORTH SEA ASSETS on the retirement of Sir Jeffrey Petersen.

Ken Mauley, former chairman of Freshfields Foods and Campbell Foods, as chairman at GLOBAL GROUP; Kenneth Dibbon has resigned.

Boy Penfold has resigned from GREENWICH RESOURCES.

Michael Burton has resigned from SYCAMORE HOLDINGS.

John Fender, md of the property advisory service of NatWest Investment Management, at TRUST OF PROPERTY SHARES; Harold Pasha has retired.

Peter Morley, retired personnel director of Tesco, at CRT GROUP.

Peggy Czynak-Damshaus, md and co-founder of La Fornia, at THORNTONS.

FT CONFERENCE

WORLD AEROSPACE AND AIR TRANSPORT

1 & 2 September 1994, London

This conference, which has the support of the Society of British Aerospace Companies, is the latest in the Financial Times' international series of high level aerospace meetings. It will focus on the challenges facing the industry in the next century, how it is restructuring for the future to achieve growth, together with the impact of government policy. Speakers include: Professor Herman De Croo, Comité des Sages; Mr Dick Evans CBE, British Aerospace; Mr Robert Ayling, British Airways; Mr Hans Mirka, American Airlines; Sir John Egan, BAA; Mr Juan A. Saez, Iberia; Lineas Aéreas de España, SA and Mr Brian H. Howe, GE Aircraft Engines.

THE NUCLEAR INDUSTRY - INTO THE 21ST CENTURY?

14 & 15 September 1994, London

This high-level meeting will examine the outlook for nuclear power in North America and western Europe, considering the impact of current government moratoria and the role of nuclear in the fuel mix, and review growth potential in the Asia-Pacific region. The challenges of improving efficiency and safety at nuclear plants in eastern Europe and issues related to managing the fuel cycle will also be addressed. Speakers will include: Rémy Carle, EdF; The Honorable John Reid, Canadian Nuclear Association; Dr Thomas G. Cochran, Natural Resources Defense Council, USA; Dr Yih-Yun Hsu, Atomic Energy Council, Taiwan; Michael Folger, United Kingdom Nirex Limited; Professor Jurgis Vilimas, Lithuanian Energy Institute; Thierry Baudou, EBRD; John Guinness CBE, British Nuclear Fuels; Mr Jean-Pierre Rousseau, COGEMA and Dr Rachel Western, Friends of the Earth.

RETAILING TOWARDS 2000 - COMBINING VISION AND EFFICIENCY

London, 21 & 22 September 1994

This year's meeting will focus on the need for the retail industry to exploit fully the opportunities that new markets and new technologies offer while, at the same time, dealing with the fundamental business challenges - maximising profitability; controlling costs; managing the property portfolio and 'crime busting'. Winning retail formats will be those that successfully combine vision with efficiency. Speakers at the conference, arranged jointly with Coopers & Lybrand, include: Ted Ban Lian, Emporium Holdings (Singapore) Ltd; George Beeton, Edgars Stores Limited; Jack Walker, Megafoods Stores Inc; Mark Luby, The Disney Store Limited; Robert Miller, Galleria 21 (UK) Ltd and James May, British Retail Consortium.

INTERNATIONAL BANKING

Madrid, 29 & 30 September 1994

This major forum, immediately prior to the annual meetings of the IMF and the World Bank, will debate the outlook for banking in the mid-1990s and address a wide range of issues of current concern to the international financial community. Speakers taking part include: Emilio Botín Ríos, Banco Santander; Richard J. Boyle, Chase Manhattan Bank NA; Dr Josef Ackermann, Credit Suisse; Egidio Giuseppe Bruno, Credito Italiano and Dr Horst Kohler, Deutsche Sparkassen und Giroverband.

WORLD MOBILE COMMUNICATIONS

London, 17 & 18 October 1994

The Financial Times '94 conference will focus on the growth of mobile communications, the various technologies being adopted and new operator strategies. Speakers include Dr Herbert Ungers from the European Commission, Mr Charles Wigdort, Managing Director of The Peoples Phone Company, Dr Joachim Dreyer, Chairman of Debitel Kommunikationstechnik, Mr Barry A. Kaplan, Vice President of Goldman Sachs & Co, Mr Tomas J. J. Managing Director of Unisource Mobile, and Mr Jan Neels, President & Chief Executive Officer of AirTouch International.

INTERNATIONAL INFRASTRUCTURE FINANCE

BUILD-OPERATE-TRANSFER (BOT)

London, 4 & 5 October 1994

This major FT conference will focus on build-operate-transfer (BOT) opportunities in key growth markets, to include Eastern Europe, South Africa and the Middle East. The challenge of financing and managing BOT contracts will be highlighted in recent case studies of major projects in the power, telecommunications and environmental infrastructure sectors. Speakers include: Sir Alistair Morton, Eurotunnel; Thierry Baudou, EBRD; John Fletcher, Trafalgar House Ltd; Sir David, The World Bank; John Hallinan II, Morgan Stanley & Co Ltd; Michael Heath, Nymex Network Systems Company; George Kappas, KMR Power Corporation.

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Pregnant woman illegally dismissed



A woman who was dismissed from her job for becoming pregnant was unlawfully discriminated against on grounds of her sex, the European Court of Justice held last week.

The case concerned the employment and dismissal of a British woman, Mrs Webb. She had been hired to replace another employee who would be taking maternity leave. This leave would not begin for six months, and it was planned that Mrs Webb should undergo training during that time. It was envisaged that Mrs Webb should continue to work for the company after the return of the other employee from leave. Some three weeks after starting work, it was confirmed that Mrs Webb was pregnant. A week later, she was dismissed for becoming pregnant. Mrs Webb brought proceedings before the industrial tribunal, alleging sex discrimination contrary to the Sex Discrimination Act 1975.

The industrial tribunal dismissed Mrs Webb's case, finding that there had not been direct sex discrimination, in that the real reason for her dismissal was not her pregnancy but the anticipated inability to carry out the primary task for which she had been recruited - to cover the job of the other employee while the latter was on maternity leave.

According to the industrial tribunal, if a man had been recruited for the same purpose and he had told the employer that he would be absent for a comparable period to the likely absence of Mrs Webb, he too would have been dismissed. The tribunal also found that there had been no indirect sex discrimination. Although more women were likely to be unable to do the job for which they had been recruited because of the possibility of pregnancy, the employer had shown that the reasonable needs of its business required that the person recruited be available during the other employee's maternity leave.

Mrs Webb's appeals to the employment appeal tribunal and court of appeal were both unsuccessful. Mrs Webb then appealed to the House of Lords. The court decided on the basis of ECJ case

law that it had to construe the applicable national legislation, so as to accord with the provisions of the relevant EC directive. It sought a preliminary ruling from the European Court of Justice.

The Court first emphasised that the purpose of the relevant EC directive was to put into effect throughout the European Community the principle of equal treatment for men and women as regards access to employment. The directive made it clear that equal treatment meant there should be no direct or indirect sex discrimination.

The Court reiterated its jurisprudence in this area: first, that the dismissal of a female worker on account of pregnancy constituted direct sex discrimination and, second, that the directive in question recognised the legitimacy, in terms of the equal treatment principle, of both protecting a woman's biological condition during and after pregnancy and of protecting the special relationship between a woman and a child in the period after childbirth.

The Court further held that notice should also be taken of a recent directive, which was not due to be implemented into national law until October 1994. This directive prohibited the dismissal of pregnant women in the period from the beginning of their pregnancy to the end of their maternity leave.

The Court then held that there was no question of comparing the situation of a pregnant woman incapable of fulfilling the task for which she was recruited with that of a man similarly incapable for medical or other reasons. Pregnancy was not comparable with a pathological condition. Further, the protection offered by Community law to a woman during pregnancy could not be dependent on whether her presence at work during maternity was essential to the functioning of the company.

Thus termination of a non-fixed-term contract on grounds of an employee's pregnancy could not be justified by the fact she was temporarily prevented from performing the work for which she was employed.

C-32/93 Webb v EMO Air Cargo (UK) Ltd, ECJ 5CH, July 14 1994.

BRICK COURT CHAMBERS, BRUSSELS

Before the summer is out, new product safety regulations will impose onerous and costly obligations on unsuspecting British businesses selling products to consumers. The lack of awareness among businesses reflects the minimal publicity given by the Department of Trade and Industry to the regulations.

The impact of the regulations will be exacerbated by the absence of a transitional period. Although they are still in draft, and therefore subject to change before they pass into law, businesses should be ready for their impending arrival.

The regulations, which implement the European Community's general product safety directive, significantly extend "the general safety requirement" in the Consumer Protection Act. They create a criminal offence of placing on the market a product which is not "a safe product".

However, as has been the case with other commercial law directives made by the European Council of Ministers, the drafting of the directive is poor and the language vague. The regulations will be superimposed on existing product safety legislation, thereby creating a complex web of legislation covering the same subject but in different terms.

Only products intended for - or likely to be used by - consumers are covered. A consumer is someone acting otherwise than in the course of a commercial activity, such as a business or trade. Goods used exclusively in the course of a trade or business (such as production equipment and capital goods) are therefore excluded. However, products which are used mainly in the course of a trade or business, but which might be used by a consumer for private use, are covered.

The regulations place obligations on "producers" and "distributors". In each case, the nomenclature is misleading.

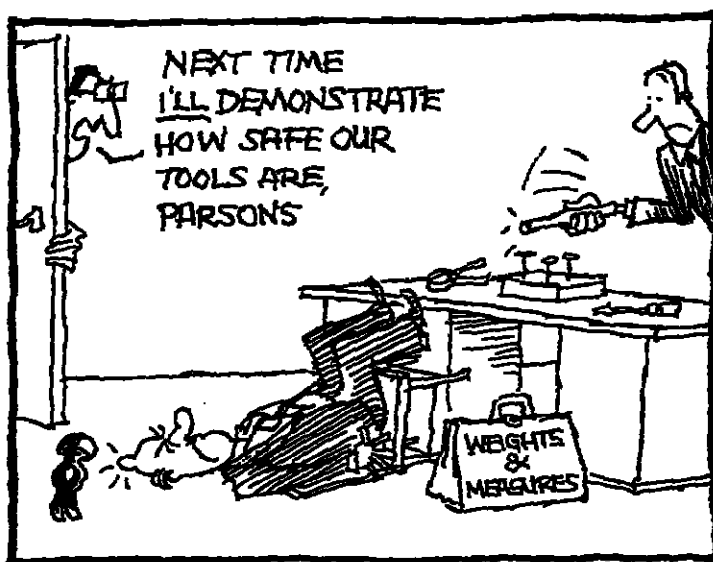
A wide definition is given to "producer". It includes the manufacturer of the product within the European Union or someone who presents himself as the producer by affixing to the product his name, trademark or other distinctive mark (for example, retailers selling products under their own label). If the manufacturer is outside the EU, the representative or importer will be treated as the producer.

The definition also includes any other professional in the supply chain, insofar as his activities affect the product's safety properties. However, there is no definition of "professional". Any person who recommends the product will also be a producer.

The same problem arises in respect of a distributor. This means any professional in the supply chain

Stay secure on safety

Stephen Sidkin and Nigel Miller explain costly new product regulations



whose activity does not affect the product's safety.

No guidance is given by the regulations as to what constitutes the supply chain. It clearly includes manufacturers, importers, own-branders, wholesalers, distributors, retailers and leasing companies. It could extend to transporters, packers and warehousemen.

The general safety requirement is that no producer will place a product on the market unless it is a safe product. For this purpose, a safe product is one which, under normal or reasonably foreseeable conditions of use, does not present any risk, or only the minimum risks considered acceptable and consistent with a high level of protection and the safety and health of persons. Risk is assessed on the basis of a number of factors, including:

- The product's characteristics, including its composition, packaging and instructions for assembly and maintenance.

- The product's effect on other products.

- The product's presentation, labelling, instructions for use and disposal, and other information provided by the producer.

- The categories of consumers who would be at serious risk when using the product. Particular consideration is to be given to children.

The producer must provide consumers with information to enable them to assess the risks inherent in a product throughout its period of use. This could be, for example, through the use of warnings. The withdrawal of a product from the market could be the end result. This obligation is continuous.

In turn, a producer must ensure that he is informed of the risks that the products might present. Post-marketing surveillance departments will have to be established.

The regulations give non-exhaustive examples of the steps a producer might take. These include marking a product so that it can be identified, sample testing of marketed products, investigating complaints, and keeping distributors informed of such monitoring.

The regulations also impose duties on distributors. By definition, distributors are not able to influence the safety of the product. Their duties are:

- To help ensure compliance with the general safety requirement.

- Not to supply products to any person that they know, or should have presumed on the basis of information which they had and as professionals, are dangerous products.

- To be involved in the monitoring

of the safety of products placed on the market, distributors must pass on information on the products and co-operate in action to avoid risks.

Where the safety of a product is already governed by specific EC law, the regulations will not apply. This is subject to a proviso: if EC sectoral directives do not cover every aspect of safety, the regulations will still apply to those aspects not covered. This can be expected to cause difficulty to businesses and has been criticised by the Institute of Directors.

There are criminal penalties for breaking the regulations. An offence under the regulations can result in a maximum of three months' imprisonment or a maximum fine of £5,000 or both. It will be a defence to show that the defendant took all reasonable steps and exercised all due diligence to avoid committing an offence.

Local weights and measures authorities will enforce the regulations. They have the power to inspect goods and enter business premises, to require production of business records, to seize and detain goods and records, to require the opening of any container or vending machine and, if refused, to break it open.

The regulations impose an onerous duty on producers and distributors to become involved in actively and continuously monitoring the safety of products. Relying on measures taken and procedures adopted to comply with the Consumer Protection Act will be insufficient. Producers must adopt proactive, rather than reactive, procedures.

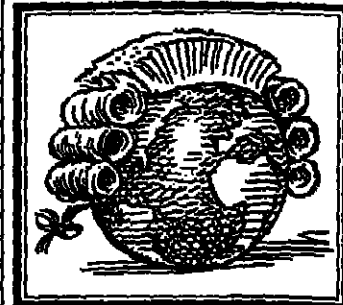
The regulations dictate that producers and distributors review their arrangements with suppliers and customers. In each case, suppliers will need to include provisions in their agreements requiring the other party to participate in product safety monitoring and marking procedures. This will enable information to be obtained.

But obligations cannot stop there. The other party should be contractually obliged to provide information to customers and be required to participate in product recall campaigns, as well as investigating complaints. At the same time, buyers should include provisions protecting them from any failure by a supplier higher up the chain to comply with the regulations.

Penalties for offences may be avoided or reduced if these courses are followed. They may also provide some contractual relief if claims are made by consumers.

The authors are commercial law partners at City law firm Fox Williams and specialise in advising on trading agreements. Free briefing notes available from Fox Williams, City Gate House, 39-45 Finsbury Square, London EC2A 1UU

LEGAL BRIEFS



Setback for private claimants in the EU

Private claims brought by individuals in the European Union cannot rely directly on EC directives where member states have not passed implementing legislation, the European Court of Justice has reaffirmed.

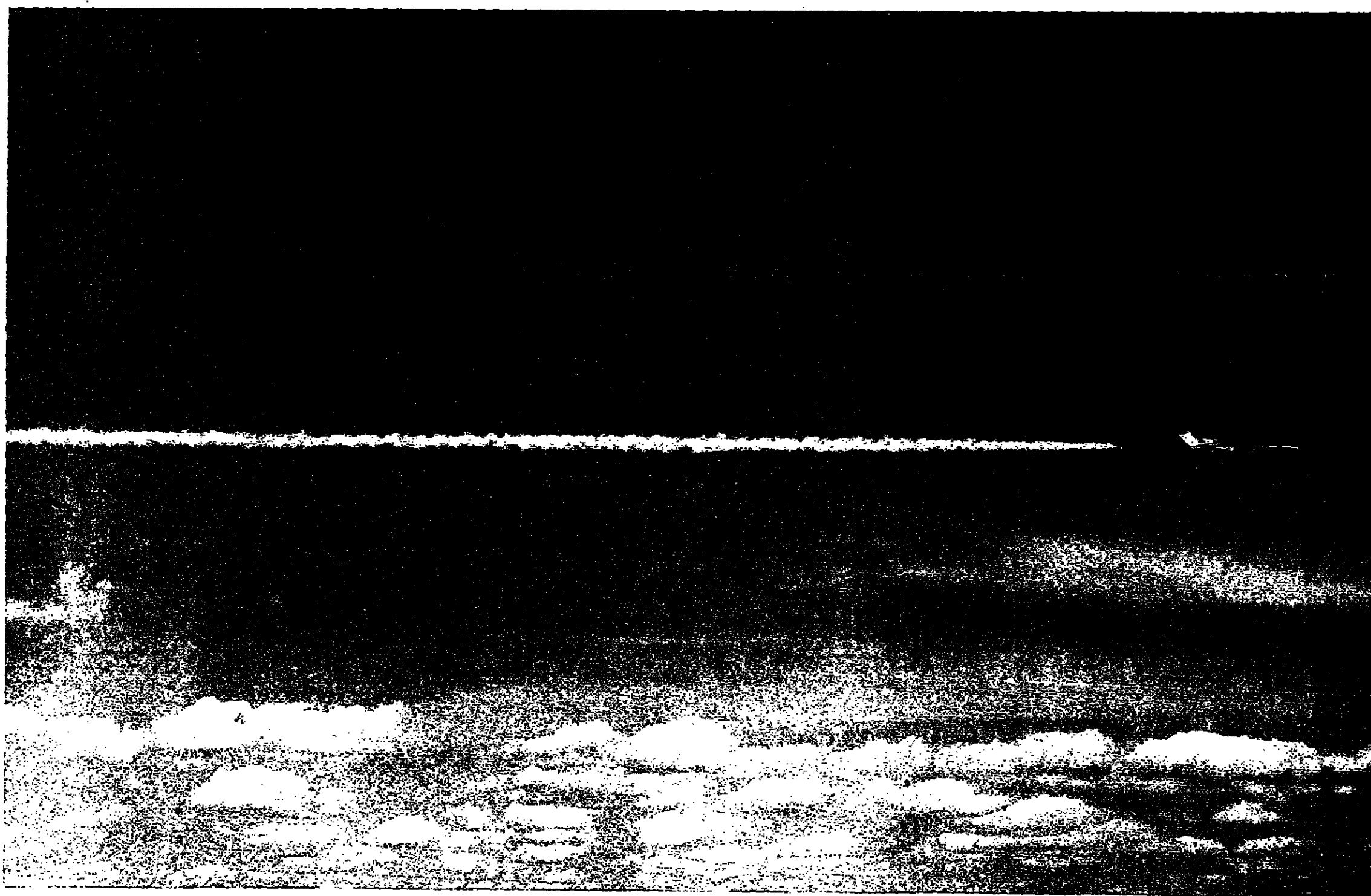
In *Faccini Dori v Recreb*, the Court upheld the current position that only public sector employees can rely directly on EC directives where national legislation has yet to be passed.

The case concerned a Miss Faccini Dori, of Milan, who cancelled a language course contract. She claimed protection under the EC's directive 85/577 concerning consumer rights over contracts. No legislation has been passed in Italy to implement this directive. The Court ruled that consumers such as Miss Dori could not rely on directives, but added that, in the application of national laws, these have to be interpreted in the light of the directives.

However, the court also reaffirmed the principle established in *Francovich* that individuals could seek damages from national governments for breaches of a state's obligations. The case had been watched by UK employment lawyers concerned that, had the Court supported Miss Dori's application, it could have prompted changes in employment law where implementing legislation differs from directives.

US firm eyes UK

Sidley & Austin, a US law firm, is to expand its UK law practice with the appointment of three prominent City solicitors. Joining its London offices will be John Edwards, formerly head of information technology with Clifford Chance, and Howard Waterman and Graham Penn, both formerly banking lawyers with Cameron Mackay Hewitt.



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The triumphant return of the Empire

Clement Crisp on an inspiring triple bill worthy of Edinburgh's refurbished theatre

I have two vivid memories of the old Empire Theatre in Edinburgh. Festival habitués still speak of the terrible crashings and ill-muffled cries that attended scene-changes. (Gang warfare? Burke and Hare recruiting fresh bodies?)

During a Royal Ballet visit to the 1962 festival, Kenneth MacMillan's recent *Baiser de la fée*, with glorious decors by Kenneth Rowell, was presented. Lynn Seymour, as the Bride, made her first appearance through an arch. As she did so, the structure keeled forward, and nearly guillotined Donald Macleary, her waiting beloved. A decade later, de-commissioned as a theatre, the Empire was pressed into service for the festival, when John Cranko brought his Stuttgart Ballet for its first visit.

Somewhere there is a photograph of Cranko and MacMillan standing either side of the notice which had been so graciously provided by patrons: "The management regrets the inconvenience to patrons. Bingo will resume in three weeks." Ah, the Athens of the North.

Edinburgh's need for another lyric theatre - larger than the pretty Kings; less like Moscow airport than the dour Playhouse - has at last rescued the Empire from its fallen state. As David Murray reported from its Wagnerian opening last month, we now have the revised, refurbished, re-thought Edinburgh Festival Theatre, and jolly good it is too.

It is especially good in its stage - broad, deep, well-equipped - and in its gleaming glass and steel facade and spanking new front-of-house. (Gone are the dingy days of crowded foyers, strange side-doors through which people could sneak in, and a lingering whiff of something un-dainty.)

The entrance is bright, spirit-rejoicing, with glassed-in promenades, bars, balconies, and a sense (as at the Opera House) of an immediately welcoming and user-friendly location.

About the auditorium I have reservations. The policy has been to restore the old and familiar setting that had existed since 1924. Such nostalgia accepts the dreary colour scheme - omnipresent mulberry for seats, walls, curtain; a good deal of cream paint with a built-in hint of grime - that may recall the good old days, except that I doubt if they were in any way decoratively good at all. But the house is spacious, with a fine acoustic and sight-lines.

It offered an admirable showcase for English National Ballet, which has just completed a two-week season. (Several more dance visits are scheduled, which is good news.)

Were anyone to seek concrete evidence of the transformations wrought by Derek Deane in the



Joanne Clarke, Simon Cooper and Lucy Smith in ENB's 'XNTricities': holding our interest by choreographic means as well as its sexual imagery

year since he assumed artistic control of the troupe, it was there in the triple bill I saw in company with a large and enthusiastic audience.

Triple bills are notoriously hard to sell nowadays. ENB played an even more dangerous game by programming three less than sure-fire pieces: the Shades scene from *Bayou*; the new *XNTricities*; and *Etudes*. All are plotless. All make big demands on their casts. The audience reaction was, clearly, one of delight.

The evening was, on these terms, inspiring. And no less so on terms of most of the dancing. *Bayou* showed a corps of 18 girls who understood the nuances and academic grace of Petipa's sublime inventions; they made complete and beautiful sense of every moment.

Margaret Ilmann, a guest with the ENB, does not yet have the stylistic command to show us Mikya's transcendent purity - in drama as in step. Her partner was Thomas Edur, and with him we see classic dancing whose dignity and emo-

sure, luscious - and emotionally true.

XNTricities, by the young Italian choreographer Mauro Bigonzetti, has settled well into ENB's repertory. Its imagery combines sexual and physical challenges. Its players

response of its cast to their tasks, led by Yut Sen Chang, who tears through the action like a well-guided missile.

Etudes, still fascinating as a portrait of dancers in class, seemed to me under a bit of a cloud. I must in all fairness record that I lately saw it in brilliant performance by the Paris Opera Ballet. ENB's dancers work with a will, and I salute the 18-year-old Giuseppe Picone, who whipped through a leading role with exuberant clarity and a *joie-de-danser* that presage wonderful things to come.

A second evening brought *Swan Lake* in Ballet Struchkova's version of the old Bolshoi staging. It is effective, and the company dance it with much good will: the first act waltz had a pleasing swing to it. Margaret Ilmann and Rex

Harrington were guest principals from the National Ballet of Canada. Their interpretations were well-meaning, and Harrington is a fine partner, but their manner suggested the emotional basics of soap-opera - *Santa Barbara*, perhaps - rather than the subtleties of this predictable but still-hallowed text.

As a traveller's note, let me recommend to anyone visiting Edinburgh the upper rooms of the National Gallery of Scotland, where the French paintings are a small but marvellous treat. Cézanne, of course, but also two miraculous Boudins, and a stunning Mauve, *Vaut le détour*.

English National Ballet will open a week's season at the Coliseum on July 25.

Which works brilliantly. For one thing, it reminds us that Jerry and Emma have betrayed not only Robert but also their children. For another, it shows us the paradise of that bygone innocence: a paradise that is not a fact but an idea. And, further, it catches the method of Pinter's play, which moves to and fro in time but basically backward, from 1977 to 1968, from the time when the affair is wholly over to the point when it began.

The production reveals that in its small-scale way, *Betrayal* operates as a Frostian effort to rediscover lost time. But lost time is lost. We never actually see Jerry lift Charlotte. We merely return to thinking about it, from changing distances and perspectives.

Warchus is strong on such poetic use of visual imagery: as in his 1991 National Youth Theatre *Coriolanus* and his current RSC *Henry V*. In the matter of shaping individual performances, his touch is not so sure. In *Betrayal*, Leslee Udwin is a surprisingly unenigmatic Emma. Richard Hope is an amiably unquestioning Jerry, and Timothy Walker is a Karmin-like Robert. Intelligent interpretations, with fresh touches that reveal new facets in the play. And Laura Hopkins' designs help them effectively to shed years as they move back in time.

But all three performances need more fine-tuning. There are actorly effects of pacing and dynamic contrast that do not convince, strokes of characterisation that should be developed. Surely all three characters, moving in artistic circles, should be more sophisticated?

Alastair Macaulay
At the Courtyard Theatre, West Yorkshire Playhouse, Leeds.

Poor Super Man throbs with power

Brad Fraser is the Canadian playwright whose award-winning *Unidentified Human Remains And The True Nature Of Love* made such an impact in Edinburgh and London last year, and coincidentally reaches the cinema screen this week.

The *Ugly Man*, brought to last summer's Edinburgh Festival by a Canadian company, was a huge disappointment - a dose of Tennessee Williams baroque turpitude combined with *Cold Comfort Farm*.

Now the same city's Traverse Theatre, where Fraser had his first UK success, presents *Poor Super Man* - *A Play with Captions*. The writer is back on the territory he knows best: the isolation of the city-dweller, the disorientation of the emotionally lonely, the sexual odyssey of the unattached, eternally seeking the ideal relationship.

In *Human Remains* the shadow of a serial killer darkened the horizon, comedy and pathos in this study of a small group of friends. In the new play the killer is identified from the outset: the HIV virus.

Shannon is denied a sex-change operation by his worsening medical condition. His eventual suicide focuses and sharpens the self-analytic gropings of the play's four other characters.

Chief among these is his flatmate David, an established painter, who (like the hero of *Human Remains*) takes a job as a waiter to dispel terminal jealousy - professional and personal. He falls in love with Matt, the married owner of the

café; a development that echoes the central relationship of *Remains*. David (as in the earlier play, a queasy seeker of love, assailed by self-doubt) has a loyal if possessive woman friend, the rueful, wisecracking journalist, Kryla; another throwback to *Remains*.

If much of this seems like a rerun of Fraser's most successful material, there is no denying he does it extremely well.

The reality of urban life nags like a throbbing tooth throughout. The characters live on a knife-edge between self-mocking irony and suicidal despair. And the use of projections, the "captions" of the title, reveal the

flooding beneath the brightness: the urgency under the badinage.

Thus when David tells his new employers in the café that he is gay and they hastily confirm that this is "not a big deal", the word "queer" appears. "Do you dislike me?" asks the cloying Kryla to her dismissive friend; his denial is countered by a projected "maybe". The titles are used naturally to note time and place, to encapsulate a scene ("he", "revelation") and sometimes as a descant to the spoken dialogue ("me me me").

Even more than *Remains* the play's central thread is the stuff of homosexual wish-fulfilment

fantasy: the gay who makes straight men fall exclusively for him. "There's something about you, things you say, the way you look at me," says the capitulating heterosexual.

In Ian Brown's direction of the European premiere such passages escape the trap of novelty; thanks to the production's rhythm and pace - but without the external threat of a killer as in Fraser's previous success, the tension is finally diffused by the short, cinematic takes of the play's construction.

The piece is uniformly well-acted though Ian Gelder's David is rather unfocused, uncertain how much his actions are ruderless

bewilderment, how much simply the result of selfishness. Christopher Simon's Matt is a fine study of puzzled sexual self-discovery. Elaine Collins is a lovely wry Kryla, and Kathryn Howden makes more of Matt's hurt, loving wife than one suspects the part is worth.

As Shannon, lying without achieving his ambition to become a woman, Jude Akurudike goes through the play in dress and wig looking like one of the Supremes, in a beautifully judged blend of delicately camp self-parody and increasing anger.

The production returns for the festival, then transfers to Hampstead. Fraser's fans will recognise the expertise of his variations on favourite themes, but may well begin to wonder what else he can do.

Traverse Theatre, Edinburgh.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

Concertgebouw Tonight: David Shalton conducts Jerusalem Symphony Orchestra in works by Mendelssohn, Kopytman and Schumann. Tomorrow: Borodin Quartet with pianist Eliso Virsaladze. Thurs: Ton Koopman and Tini Mathot, harpsichord and organ recital. Sat: Ross Pople conducts London Festival Orchestra in Copland, Vaughan Williams and Tippett. Next Mon: Lev Markiz directs New Sinfonietta Amsterdam in Mendelssohn and Schubert, with violin soloist Vadim Repin (020-671 8345).

ATHENS

ATHENS FESTIVAL. Christina Hoyos Ballet gives performances at the Odeon of Herodas Atticus on Sun and Mon. Greek National Opera Ballet presents Rudi van Dantzig's production of Prokofiev's *Romeo and Juliet* on July 27 and 28. Hildegard Behrens, Dmitri Sgoros

and Mstislav Rostropovich are soloists in a Sakharov memorial concert on July 30 (Athens Festival box office, 4 Stadiou Street, in the arcade. Tel 01-322 1459/01-322 3111. Open Mon-Sat 8.30-14.00 and 17.00-19.00, and Sun 10.30-13.00).

EPIDAUROS FESTIVAL. The annual festival of ancient drama in the 1,400-seat amphitheatre at Epidaurus hosts performances of Greek classical drama on most weekends throughout the summer. National Theatre of Greece presents Euripides' *Hecuba* on Sat and Sun. Peter Stein brings his marathon Moscow production of *The Oresteia* on July 30 and 31. Tickets are available daily at the Athens Festival box office (01-322 1459) or at the theatre of Epidaurus on Fri, Sat and Sun (0753-22006).

CHICAGO

THEATRE. ● A Little Night Music: Michael Maggio directs this Sondheim classic, hailed as the perfect romantic musical comedy. Till Aug 7 (Goodman 312-443 3800). ● Breaking the Code: Hugh Whitmore's 1986 play about loyalty, national expediency and homosexuality is in repertory with Anthony Clavoe's *The Living*, a new play about the London plague of 1600. Final week (Interplay 312-654 1055). ● Talking Heads: Steppenwolf alumnus and famed character actor John Mahoney directs the American premiere of Alan Bennett's tragicomic series of monologues. Just opened (Steppenwolf 312-335 1650).

● Jeffrey: as part of their Pride Performance series of gay and lesbian theatre, Ballwick Repertory presents the Chicago premiere of Paul Rudnick's hit comedy about love and dating in the age of AIDS (Ballwick 312-327 5252). ● SAVANNAH FESTIVAL. Tonight: Victor Borge. Tomorrow: John Denver. Thurs: Jane Olivor. Fri: Eri Klas conducts Chicago Symphony Orchestra in works by Nielsen, Grieg and Sibelius, with piano soloist Misha Dichter. Sat: Klas conducts a Russian programme, with cello soloist David Geringas. Mon: Beaux Arts Trio. The festival runs till August 28. To order tickets by phone, call 312-ravilla. Outside the metropolitan Chicago area, call 1-800-433-8819. Tickets can be ordered by fax 24 hours a day: 708-433 4582.

LONDON

THEATRE. ● The Miracle Worker: Richard Olivier directs William Gibson's true story of the relationship with a deaf, dumb and blind girl. First produced in 1959 with Anne Bancroft, this new production stars Jenny Seagrove, William Gaurt and Judi Bower. Opens tonight (Comedy 071-369 1731). ● Saint Joan: Gall Edwards' Theatre Cwyd production of Bernard Shaw's classic comes to the West End with Imogen Stubbs as Joan of Arc, caught between her rebellion against the feudal state and the authority of the Church. Previews start tonight, opens on Thurs (Strand 071-930 8800). ● Lady Windermere's Fan: Philip

Prowse directs and designs Oscar Wilde's 1892 comedy. Previews start tonight, opens next Mon (Albany 071-369 1730). ● The Seagull: Judi Dench stars as Arkadina in Pam Gems' new version of Chekhov's play about disappointed aspirations. John Caird directs (National 071-928 2252). ● The Tempest: Alec McCowen heads the cast in Sam Mendes' RSC production, in repertory with King Lear starring Robert Stephens (Barbican 071-836 8891). ● Home: Paul Eddington and Richard Briers in a revival of David Storey's 1970 play (Wyndham's 071-369 1735). ● She Loves Me: A highly successful West End transfer of Scott Ellis' Broadway revival of the charming 1963 musical by Masteroff, Bock and Harnick (Savoy 071-930 8800).

MUSIC

Royal Albert Hall This week's Proms feature the CBSO under Simon Rattle tonight, the BBC Philharmonic under Vernon Handley tomorrow and Yan Pascal Tortelier on Thurs, the Australian Youth Orchestra with Yakov Kreizberg on Sat, Bach's B minor Mass conducted by Joshua Rifkin on Sun morning, the RPO with Vladimir Ashkenazy on Sun evening and the BBCSO under Mark Elder on Mon (071-589 9212). ● Barbican Kronos Quartet is in residence till Fri, followed on Sat by the LaBèque Sisters. Sun: Neville Martin conducts ASMF in a Beethoven programme, with piano soloist Tili Felner (071-638 8891). South Bank Centre This week is

devoted to the JVC Jazz Parade, including George Shearing Duo and Diane Schurr tonight, and B.B. King, Roy Rogers and the Delta Rhythm Kings on Sun. Next week is devoted to The American South, a festival of music, literature, theatre, visual arts, dance and food from the southern states of the US (071-928 8800).

OPERA/DANCE. Covent Garden The Royal Opera ends its season with *Aida* tonight and Fri. La fanciulla del West tomorrow and Sat, and Manon on Thurs. The Royal Ballet returns on July 27 (071-240 1066). Coliseum English National Ballet opens a week of performances next Mon, featuring a mixed bill and Ronald Hynd's new production of *Sleeping Beauty* (071-836 3161).

MILAN

Teatro alla Scala Tonight, tomorrow, Thurs, Fri, Sat: John Cranko's ballet *Olegri*. End of season (02-7200 3744).

MADRID

Teatro Lirico La Zarzuela Thurs, Sat, next Mon: Alberto Zedda conducts final performances of Pier Luigi Pizzi's production of *L'italiana in Algeri*, with cast including Ruggero Raimondi (01-429 8225).

ROME

Angelin Preljocaj and the Paris Opera Ballet present choreographies by Preljocaj tonight, tomorrow and Thurs at Museo degli strumenti musicali. There are piano recitals by Ingeborg Baldazzi tomorrow

at Istituto Austriaco di Cultura, and by Rosa Torres Pardo on Thurs and Jean Claude Penneret on Fri, both at Palazzo Farnese. Villa Medici hosts contemporary music concerts daily till Sat, focusing on Xenakis and Nono (tickets 06-261 2682/06-372 0216/06-281 0335. Information 06-4990 4029).

STOCKHOLM

Drottningholm A fantasia on the opera world of Handel, entitled *Heavenly Handel*, opens on Friday, with cast headed by Anne Sofie von Otter and Barbara Bonney. Repeated July 25, 27, Aug 5, 7 (08-650 8225).

VENICE

Teatro La Fenice Tonight: first of nine performances of La bohème, conducted by Marcello Viotti and staged by Giorgio Marin (041-521 0161).

WASHINGTON

● The main summer show at the Kennedy Center is Miss Saigon, the musical love story set during the Vietnam war. Daily except Mon (202-467 4600). ● Alan Ayckbourn's farce *A Small Family Business* runs till Aug 7 at Olney Theatre (301-824 3400). ● David Zinman conducts the Baltimore Symphony Orchestra in all-Mozart programmes with piano soloist Barry Douglas on Thurs and Sat at Oregon Ridge (410-763 8000), and on Sun at Wolf Trap. This week's bill also features Santana tonight, and Peter Paul and Mary on Fri and Sat (703-255 1860).

Theatre Tricks or memory treats

The more I watch Harold Pinter's plays, the more I love the way he plants images in the air and lets them grow there. A simple example in his 1978 play *Betrayal* is Jerry's recollection of picking up young Charlotte one Christmas, of lifting her high and down and up, of how she laughed, of how everyone present laughed. Charlotte (never seen in the play) is the daughter of Robert (Jerry's best friend) and Emma (who was/is, for some years, Jerry's mistress). "Everyone" present at that Christmas includes Jerry's own wife and children.

The first irony about this memory is that Jerry and Emma evoke it when they are alone together. Thus they make it an image of the innocence that existed around and between them once, before their affair began; before they betrayed it. The second irony is that Jerry twice remembers the event as having occurred in Emma's kitchen; and that she twice corrects him - his kitchen. The deceptiveness of his (or her) memory has an ah-yes-I-remember-it-well charm, and yet also becomes poignant. Memory matters, but plays tricks.

And it is this image that Matthew Warchus makes luminous in his new production of *Betrayal* at the West Yorkshire Playhouse. Between each of the nine scenes, different clips of a film of a child - like a home movie - are projected on to the ceiling above the stage. (The audience, seated on four sides of the stage, can all see.)

The child's radiant smile, tumbling hair, constant motion all make an impression. At first, we watch her objectively; later, when she looks directly at the camera, we are touched; gradually, as we see - like the close-ups in Antonioni's film *Blowup* - increasingly near but blurry views of areas of her hair and face, we are confused.

Which works brilliantly. For one thing, it reminds us that Jerry and Emma have betrayed not only Robert but also their children. For another, it shows us the paradise of that bygone innocence: a paradise that is not a fact but an idea. And, further, it catches the method of Pinter's play, which moves to and fro in time but basically backward, from 1977 to 1968, from the time when the affair is wholly over to the point when it began.

The production reveals that in its small-scale way, *Betrayal* operates as a Frostian effort to rediscover lost time. But lost time is lost. We never actually see Jerry lift Charlotte. We merely return to thinking about it, from changing distances and perspectives.

Warchus is strong on such poetic use of visual imagery: as in his 1991 National Youth Theatre *Coriolanus* and his current RSC *Henry V*. In the matter of shaping individual performances, his touch is not so sure. In *Betrayal*, Leslee Udwin is a surprisingly unenigmatic Emma. Richard Hope is an amiably unquestioning Jerry, and Timothy Walker is a Karmin-like Robert. Intelligent interpretations, with fresh touches that reveal new facets in the play. And Laura Hopkins' designs help them effectively to shed years as they move back in time.

But all three performances need more fine-tuning. There are actorly effects of pacing and dynamic contrast that do not convince, strokes of characterisation that should be developed. Surely all three characters, moving in artistic circles, should be more sophisticated?

ARTS GUIDE

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Wednesday: Festivals guide.
Thursday: Festivals guide.
Friday: Exhibitions Guide.

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Mr Victor Chzhen, deputy prime minister and privatisation minister of the ex-Soviet republic of Uzbekistan, had saved his bombshell until the last moment.

Executives of the UK-based tobacco and financial services group BAT Industries, meeting ministers in the capital Tashkent, were expecting to clarify details of a preliminary agreement to acquire a majority stake in Uzbekistan's tobacco industry. Towards the end of the meeting, however, Mr Chzhen made a "suggestion". Might BAT perhaps buy not 51 per cent, but 97 per cent of the industry immediately - involving an extra up-front payment of some \$54m?

BAT's chairman Sir Patrick Sheehy said he would discuss the proposal with his team; within 24 hours a carefully worded letter was despatched to Mr Chzhen informing him that his suggestion was "regrettably unacceptable".

Such are the uncertainties of doing business in Uzbekistan. Although its former communist president, Mr Islam Karimov, has embraced market reforms, the country has a reputation for being a tricky place in which to operate. But in spite of bureaucratic wrangling, and poor infrastructure and communications, companies such as BAT are showing that it is possible to do deals with a republic which for centuries straddled the Silk Road trading route, and has ambitions once again to be a centre of east-west trade.

The 22m-strong state is starting to attract interest from both east and west. The first products of a joint venture between Coca-Cola and a local company appeared in Tashkent last month; US mining company Newmont has a gold-mining project; and Daewoo, the South Korean conglomerate, has a joint venture to produce cars from next year.

The BAT deal, which should be completed within weeks, is Uzbekistan's biggest privatisation. BAT is spending \$60m on its 51 per cent stake in Uz Tobacco, a state enterprise comprising the republic's only cigarette factory, in Tashkent, and tobacco-processing plants in the second city Samarkand, and in Urgut, a tobacco-growing centre.

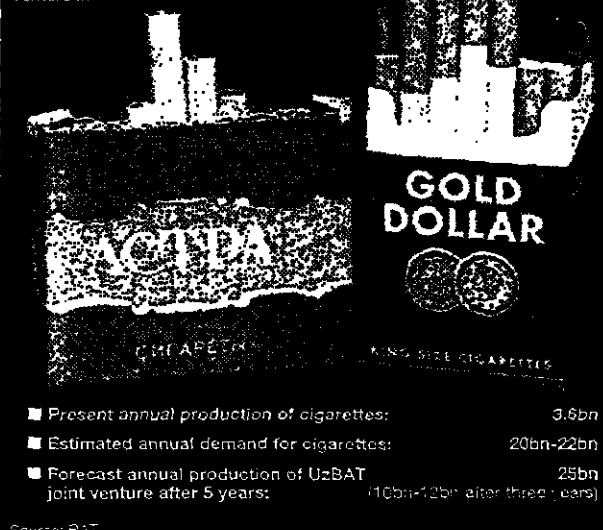
BAT plans to invest a further \$232m over five years, refurbishing the Tashkent plant, building a cigarette factory in Samarkand, and installing new equipment in Urgut. Within five years it hopes to

BAT-man's opening

Neil Buckley on the tobacco giant's strike into Uzbekistan

Cigarette packets: a puff for the west

Before and after an Uzbek brand (left) and a new high-quality product produced by BAT's joint venture in Ukraine



increase domestic cigarette production from 4bn cigarettes a year to up to 25bn - outstripping the republic's estimated demand of 20bn a year. BAT's equity holding is set to increase to 97 per cent over the five years as it puts money into the venture.

"This is the first time we have agreed such a large joint venture, and in effect handed over a whole industry to a foreign partner," says Mr Ismail Jurabekov, Uzbekistan's first deputy prime minister.

Getting to this stage has, however, taken eight months of negotiation and been fraught with difficulties. BAT's team in Tashkent says operating in Uzbekistan can be more frustrating than in the third world. Its biggest complaint is the bureaucracy. "In Africa, you may be kept waiting, but usually you are dealing with someone who can make a decision, and after a while they will make a decision," says a team member. "Here, nobody wants to make a decision."

One reason may be the political struggles going on inside the government, where ministers jostle for position and

appear anxious not to make political mistakes.

Another problem is the lack of proper legal and tax frameworks. Land-leasing is unknown in central Asia, and in establishing the rent for its 99-year leases on its factory sites, BAT is setting the benchmark for future investors. It is urging the government to equalise the tax treatment of imported cigarettes, which are excise-free, and those produced domestically, which are subject to an excise tax of 900 per cent - a relic of the Soviet era when imports were small.

While some difficulties have been surmounted, risks remain. The ruthless political efficiency of the ruling People's Democratic Party, which has outlawed the main opposition movement, has not been matched by economic performance. Inflation was running at an annualised 1,500 per cent in the first quarter of this year; there are negative real interest rates and cheap credits are propping up near bankrupt state enterprises. There is little hope that the som, the new currency introduced this month, will hold its value any

better than its predecessor.

If the value of Uzbekistan's currency is questionable, so is the worth of its industrial assets. At the Tashkent cigarette factory, the most modern equipment dates from the 1960s; the oldest from 1922. In the factory, electric cables dangle from the ceilings. Subjected recently to a standard BAT factory safety inspection, Tashkent scored 2.3 per cent. The pass mark is 70 per cent.

"The machinery and buildings in these places really have negative value," says Sir Patrick. "What you are buying is the business, and the market. You have got to have a lot of confidence that you are buying this negative base, but you can make money from it."

Sir Patrick is confident that his deal will make money for BAT, and for Uzbekistan. BAT gets a monopoly of domestic cigarette production for five years. It acquires the rights to local brands, and the opportunity to manufacture locally "value-added" international brands. It gets a skilled, but low-cost workforce (average wages are about \$10 a month) and manufacturing capacity that should eventually enable it to export cigarettes to other former Soviet republics.

For its part, Uzbekistan gets much-needed dollars, and an industry rebuilt. The new factory in Samarkand will create 500 jobs, and the government can look forward to increased excise and value-added tax revenues as cigarette output rises.

It should also earn more from tobacco exports - currently more than 30,000 tonnes a year - as BAT will provide technical assistance to Uzbekistan's farmers, and hopes to introduce, alongside the existing "Oriental" tobacco crops, the Virginia and Burley varieties needed for producing international-quality cigarettes.

Some evidence that such ventures can succeed in former Soviet republics can be found 2,000 miles west, in eastern Ukraine. In Priluky, BAT bought 65 per cent of a newly privatised tobacco factory last year. In a republic whose economy is arguably in a worse state than Uzbekistan's, and selling cigarettes for the equivalent of a few US cents a pack, the Priluky plant made a profit last year. New technology has enabled it to introduce a higher-quality brand.

"These areas may be risky," says Sir Patrick, "but if you take a long-term view, the opportunity is there to get in at a low price, and add value."

Shake to the right beat



Whatever his shortcomings, Mr John Major is not politically stupid. Or is he? The UK prime minister must know how dangerous it would be to allow his Conservative coalition to be led by the hard right. He has recently been urged to avoid this pitfall in speeches by Mr Douglas Hurd, Mr Kenneth Clarke and Mr David Hunt, to name all three. Thanks to the first two, the Tories' fragile concordat on Europe holds, but, as to domestic economic and social policies, a reversion to the harsh theme music of the 1980s may seem tempting. There is so much internal discord. Will this noise never cease? Not while the government stays divided. If you cannot beat the Thatcherites, Mr Major might reason, then for the party's sake allow them to win.

If he succumbs, we must ascribe his failing to weakness. He will not have the excuse of ignorance. The Tories belted out the anthems of the narrow right at their conference last October. Look where that got them. The promotion this week of ministers who are at their merriest when singing songs of purple patriotism and perverse parsimony would raise the spirits of some, but dismay the gentle English soul. What the uncompromising right tends to forget is, not that the party to which they have attached themselves won the last four elections, but that in 1979, 1983, 1987 and 1992 Labour lost. It cannot be relied upon to do so a fifth time.

We voters are motivated by self-interest. But altruism, a sense of concern for others, is also part of the general make-up. Many years ago, the late professor Richard Titmuss wrote *The Gift Relationship*, in

which he demonstrated that the blood given for free by English donors was better, less prone to infection, than the blood sold to hospital services by the poor in the United States. This has not changed, much. The American blood-buyers are doubtless more picky than they were, but in England a brand-new quango, the National Blood Authority, still collects the fluid from volunteers' arms. Cash does not come into the equation.

It is possible that the electorate is shrinking from cash-ism. Not so far that it wants a return to the 1970s, but that is not on offer from any source. The potential appeal of the

line are undiluted. There is no provision for altruism in the cash-ist revolution.

Here I sympathise with the Right Reverend Mark Santer, Bishop of Birmingham, in his recent address to the British Medical Association. He acknowledged that change in the management of the health service is inevitable, but spoke also of practitioners "fulfilling a vocation... offering a service of love and duty to their fellow men and women". This kind of declaration is pointless if it denies the need for simple fiscal prudence. That is not, however, at issue. Voters understand, if the brainless bean-counters do not, that a sense of vocation has driven the NHS since

Middle England is uneasy about everything - unemployment, house prices, crime and the steady, unceasing hammer of change

1948. Destroying that willingness to serve could be costly. Subtle market reformers would understand this. The electorate may also dimly apprehend the relationship between the polarisation of our two nations and the increase in anti-social behaviour. Two nations? Of course. In ours, you have a job, own a house, run a car, keep in with your bank manager, take foreign holidays, and know, deep in your heart, that you could, at a stretch, buy your family's way ahead in the health queue, or change your children's school. In theirs, they have none of these things. British society is becoming more divided every year. The evidence is in "Households Below Average Income", published last week by the Government Statistical Service.

It shows the proportion of the population living on below-average income as 59 per cent

in 1979, when this government first took office. In 1991-92, the latest period for which numbers are available, the equivalent figure was 62 per cent. Some 9 per cent of our people scratched by on less than half average income when the then Mrs Thatcher arrived; 13 years later the figure had risen to 25 per cent. Yes that's right. A quarter of us. The sums look much the same if you exclude housing costs. The worst off fared worst. Average net income rose by 36 per cent in the period, but none of the extra fat went to the lowest fifth of the population.

As to the lowest tenth, real median income actually fell by 17 per cent. The poorest individuals in 1979 may have been replaced by others by 1992, but that observation, among many other explanations in the accompanying commentary, does not feed the children. Undeclared black economy income may have helped some of the underclass get by, but the overall picture is likely to have deteriorated since 1979. The family expenditure survey, on which the government's figures are based, excludes people in institutions and those living rough or in bed and breakfast accommodation.

The harsh truth is that nobody has a satisfactory answer to any of this. The proponents of one-nation policies, be they Conservative or Labour, do at least show some inclination to try. Whatever their protestations, however generous their personal behaviour, the Tory right cannot easily persuade us that kindness, the essence of charity, figures in its calculations. Clear away those beggars! Deny those single parents! Forget the poor! Exclude! Banish! Despise! Their slogans are depressingly easy to caricature. If Mr Major allows those who purvey them to prevail, he, and his party, will deserve to lose.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Cultural trends in German equity markets

From Mr Jim Platts.

Sir, On July 14 I attended a manufacturing engineering conference where discussion centred on the competitiveness of European industry. We consistently heard examples both from the speakers and from the floor of long-term views and solid investment in Germany (and elsewhere) and the lack of such investment and vision in the UK.

It was typical that on the same day I should find a report in the FT, by David Waller, on the lack of a share culture in Germany, as if it were some kind of disability ("Resisting the bait of equity ownership").

I think what he meant was that they don't have a share trading culture - because they recognise that wealth creation is a product of custodianship in which share trading can only ever be secondary.

Do we get a balancing article on the lack of an ownership culture in the UK? Jim Platts, department of engineering, University of Cambridge, Mill Lane, Cambridge CB2 1RX

From E H Claussion.

Sir, David Waller's report misses two aspects when he lists actions required for over-

coming the lack of an "equity culture" in Germany.

First, the leading German banks, including Mr Rolf Breuer's Deutsche Bank, must create incentives for young people to become involved in stock exchanges.

For decades, these banks have erected ever higher barriers for young newcomers to these exciting markets. I guess the bankers consider the short-term costs for such programmes too high and they have failed to recognise their primary long-term responsibility. Without a broadly based participation, starting with the young, I cannot see an "equity culture" developing in Germany.

Second, several decades ago, the German government created the "Volksaktie" when selling, for example, Volkswagen. If the government finally decides again to sell off state enterprises such as Lufthansa, Telekom, etc, I hope it looks to the UK and learns from the series of successful privatisation programmes. Sid could be useful in helping the German government and banks to develop an "equity culture".

E H Claussion, The Penthouse, 176 Leigham Court Road, London SW16 2RF

House price trends and recovery

From Mr Peter Miller.

Sir, Samuel Brittan is right to point out that soaring house prices are unhealthy for the economy (Economic Viewpoint, July 7). But he fails to comment on the problems caused by a depressed housing market.

Without a strong housing market - remembering that the phrase refers as much to the number of transactions as to prices - the economy cannot reap the benefits of the increased outlay on goods and services that go with moving house.

The "wealth effects" that a modest rise in residential property prices creates cannot be measured, but without their reassuring presence to the home-owner, consumer spending is unlikely to play a large role in facilitating the economic recovery.

Peter Miller, Royal Institution of Chartered Surveyors, 12 Great George Street, Parliament Square, London, SW1P 3AD

All you need is love... and dress sense

From Mr Shinji Kimura.

Sir, Further to your coverage of the Takarazuka Revue (Arts: "Cross-dressing Japanese style", July 13), please allow me a brief word in reply.

Is it really necessary to take everything in life so seriously? Or do people in England not feel that there are moments when you can say "it may be crazy but I love it", or "it may be kitsch but it's fun"? You see, all that I am trying to do through my work is to bring

a little more light into the world.

And if we do have to be serious, please at least remember that, unlike some people, we do not set out to hurt anyone. I believe that it was your countryman John Lennon who said it best: "All you need is love." Shinji Kimura, artistic director, Takarazuka Revue, 1-57 Ichome, Sakamachi, Takarazuka, Japan

From Mrs Ann Turk.

Sir, Bravo, Clement Crisp (Arts: "The decline and fall of elegance", July 18)! In my stalls seat at the Royal Opera House (not paid for by corporate hospitality!) I have rubbed thighs and shoulders with a man wearing shorts with an Hawaiian shirt. Ann Turk, 119 Barnfield Avenue, Kingston upon Thames, Surrey, KT2 5RG

Essential that green belt remains strong

From Mr William Walton.

Sir, Paul Cheeseright's article (Property, July 15) noted that a number of developer interests had expressed the wish that the environment secretary should relax the currently defined West Midlands green belt when issuing his forthcoming strategic planning guidance for the region.

However, they should understand that the secretary of state is constrained in the matter by his more general advice on green belts contained in Planning Policy Guidance Note number 2 issued in 1988, cur-

rently under review, which states the need for "exceptional circumstances" when proposing alterations to established green belt boundaries.

Given that it is most unlikely that the secretary of state will delete this policy requirement from the emerging policy advice on green belts, any proposed relaxation of the West Midlands green belt must be supported by very convincing reasons.

While it is undeniable that potential investment in housing and commercial develop-

ment that is prohibited from its preferred location on the urban fringe by green belt policy will not necessarily take place in inner city areas where it is needed most, it remains that a strong green belt policy is required as part of an overall strategy for government policies on urban regeneration and sustainable development.

William Walton, lecturer, Department of Land Economics, University of Aberdeen, St Mary's, King's College, Old Aberdeen AB9 2UPL

No point to government proposal on delegating pay bargaining

From Mr Barry Reamsbottom.

Sir, Publication of the white paper on civil service reform continues the depressingly regular process of the government announcing the introduction of new policies, while quietly signalling the demise of others ("Whitehall faces sweeping reform", July 14).

The delegation of pay to all departments and agencies by April 1 1996, the latest ministerial fad, will only result in both a massive extension in costs, as well as in the actual numbers of people who will now need to be employed on annual negotiations exercises.

National pay bargaining arrangements, by and large, have worked very well. In their place will come 150 bargaining units and an increase in negotiators and back-up staff from a handful based in the Treasury to an estimated 3,000 across every department and agency.

There is, of course, no evidence that the fragmentation of pay bargaining will either reduce the overall pay bill, or ensure that particular groups of staff will have better performance rewarded.

All that has happened this year, for instance, in those

areas that already have delegated pay, is that the hundreds of extra hours of negotiations in different agencies have resulted in remarkably similar, if not exactly identical, pay deals. And, as in the case of Railtrack, the potential for disputes will mushroom because Treasury ministers will still be breathing down the necks of these 3,000 negotiators. So what on earth is the point?

The birth of a new policy also sees the timely death of another - market testing. Buried deep within the white paper is the announcement, quite unthinkable at the start

of this year, that the Treasury will no longer insist on departments establishing market testing programmes with centrally set targets. Market testing has been an enormously costly disaster, even if the still will not say so in so many words. I have no doubt the within a few years delegate pay is likely to go exactly the same way.

Barry Reamsbottom, general secretary, CPSA, 160 Falcon Road, London SW11 2LN

FINANCIAL TIMES

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Tuesday July 19 1994

Antitrust and global markets

Whatever the impact on the computer industry of this week's settlement of monopoly proceedings against Microsoft, the world's largest software company, it marks a milestone in antitrust law. The unprecedented co-operation between authorities in Washington and Brussels which it occasioned seems bound to add to the growing debate about how competition policy should be adapted to the realities of global markets.

Admittedly, it is still uncertain how far the case will set a pattern for the future. The international co-ordination involved was possible only because Microsoft authorised the two authorities to exchange information, an arrangement which their own rules would normally preclude. Yet the fact that such co-ordination was deemed desirable underlines the growing propensity of competition issues to spill across frontiers.

Concern about how to respond to this trend has taken a variety of forms since the 1970s, when many developing countries clamoured for tighter international controls on multinational companies. In the 1980s, the focus switched to averting conflict due to the extrajurisdictional application of US and European competition policies – a problem which led to the conclusion of a bilateral treaty.

In the 1990s, two more issues have emerged. One is the worldwide spread of national competition laws, introduced as part of market-based economic reforms. This proliferation of different rules and procedures threatens to impose a heavy compliance burden on companies which operate internationally, and to create a regulatory minefield.

The second issue is the growing inter-play – and potential conflict – between antitrust and trade policies, as economies become more exposed to global competition. That has prompted demands that

the matter be placed on the agenda of the World Trade Organisation, the successor to the General Agreement on Tariffs and Trade.

Some experts believe these pressures will ultimately lead to the creation of a global cartel office. But the surrender of sovereignty which that would require makes it improbable in the foreseeable future. A more realistic way forward is through closer co-ordination of national policies, bilaterally and within regional economic blocs.

That should reduce the risk of regulatory and procedural disparities between countries. However, closer co-ordination is unlikely to solve all the problems arising from the complex linkages between competition and trade policy. Indeed, it could exacerbate them if, for example, it encouraged the US and the EU to try jointly to impose their competition policy precepts on other countries in an attempt to prise open their markets.

Such tactics have already been invoked by the US in its trade disputes with Japan. They represent an unacceptable intrusion by one government into another's domestic affairs, which threatens severe international friction.

That is the strongest argument for placing competition and trade policy on the WTO agenda, so as to ensure that the debate is anchored in a multilateral framework. The first priority should be to identify precisely how the two policies inter-act. Among the issues to be resolved are the links between competition policy and anti-dumping measures, and how far alleged market barriers are due to deficient competition laws, as opposed to cultural and consumer preferences.

The US and the EU should build on the mutual understanding evident in the Microsoft case to further these objectives.

Pressurised gas

There signs that the government may be hesitating about deregulating the British gas industry. A long-awaited Gas Bill has yet to emerge, and reports suggest that the Cabinet may have decided to demote the subject on its agenda.

If this is the case, something must have deflected the government from the course it adopted at the beginning of this year when it set a clear timetable for reform of the gas market. One guess is that ministers have taken a closer look at the price implications of deregulation, and heeded the warnings from British Gas that millions of households would end up with higher gas bills as a result of greater competition. This is because an open market would drive out the cross-subsidies which have kept the bills of more modest consumers of gas low at the expense of larger users.

Algeria's agony

"The status quo is no longer tenable." That remark about Algeria was made some weeks ago by Alain Juppé, the French foreign minister. It is the nearest France has come, in public, to admitting the failure of its policy in that country – a policy of backing the present military regime on the grounds that, whatever its faults, it is preferable to the Islamic alternative.

The thinking behind that policy is easy to follow. Islamic militants have been increasingly ruthless and indiscriminate in their use of violence, and increasingly intolerant in their social attitudes, especially towards emancipated women and secular intellectuals. Some of their leaders have openly rejected democracy as incompatible with Islam. Others' espousal of it may be purely tactical or, if sincere, might not survive once they were in power and facing serious opposition. An Islamic victory even by democratic means – such as was about to happen in January 1992 – could easily be a case of "one man, one vote, one count" as an American diplomat has said. It could also trigger the flight en masse of Algeria's westernised middle class, most of which would head for France.

But the policy is not working. Two and a half years after the elections were cancelled, Algeria is further than ever from civil peace. Foreigners, including diplomats, have become regular targets of terrorism, and the regime seems powerless to protect them. Attempts at dialogue with the imprisoned leaders of the Islamic Salvation Front (FIS) have been abortive, even though those leaders have now more or less abandoned the conditions – release of all political prisoners and new elections – on which they were insisting earlier in the year.

Many observers believe President Liamine Zeroual is prevented

from pursuing this option by the hardline group of "graduates" around the chief of staff, Gen Mohamed Lamari. The methods favoured by that group may be said to have "worked" in Syria, when President Hafez al-Assad destroyed the ancient city of Hama and killed tens of thousands of people in 1982. It is highly questionable whether they can work in Algeria, or if they can whether the price is worth paying. For the moment they have produced a civil war in which no quarter is given, in which terrorists enjoy the legitimacy of frustrated democrats, and in which Algerians of liberal persuasion are as likely to be victims of one side as of the other. Many have already fled to France, ostensibly as visitors, or are trying to get visas to do so.

Unpleasant facts must be faced. The longer Mr Juppé's untenable status quo is maintained, the more bitter and uncompromising an eventual Islamic regime is likely to be. French, European, and indeed western policy should now be directed at ending the violence and ensuring a smooth transition. Further economic aid to Algeria should be made conditional on the early holding of free elections, with this time firm guarantees that the result will be respected whatever it is.

If the result gives power to the FIS, its leaders will then have both instruments and incentives to curb extremist violence, which at present they lack. They would also have a strong incentive to maintain good relations with the EU. (The EU takes 70 per cent of Algeria's oil and gas exports, on which in turn the country depends to feed and employ a population growing at 2.7 per cent annually.) Algeria would not for some time be a liberal democracy, or a paradise for westernised intellectuals. But it could stop being the hell for all its inhabitants that it is now.

As the latest UK business statistics tumble on to desks, economists might hear the echoes of a small corporate squal.

Official figures in the past week have shown that raw materials prices are rising but retail prices are not. Caught in the middle are manufacturers which face the same unenviable choice confronting retailers: can they carry on as before, planning to pass on price rises? Or must they knuckle under in a new business environment in which sale volumes, not profit margins, will distinguish winners from losers? The decisions manufacturers make will influence the inflation rate in coming months and signal whether the government has been successful in persuading industry to develop a low-inflation psyche.

The sums behind the dilemma facing companies are stark. Figures from the Central Statistical Office last week showed that the price of raw materials and fuel for manufacturers had risen by 0.8 per cent between May and June, and by 4.4 per cent since January. The main cause appears to be the worldwide surge in commodity prices.

Prices of goods leaving factory gates, by contrast, did not rise in June, and have risen by a mere 0.8 per cent since January.

Survey evidence suggests most companies expect the pinch to continue. A British Chambers of Commerce survey on Thursday is expected to list input costs as the biggest business worry. But a recent Confederation of British Industry manufacturing survey showed that 79 per cent of manufacturers expected prices to remain flat, or fall, over the next four months. This is in spite of a pick-up in retail sales, as shown in today's CBI distributive trades survey.

The main reasons manufacturers have decided not to increase output prices are competition from overseas and the continuing price sensitivity of consumers. A Gallup survey last week showed April's tax rises had not significantly dented consumer confidence, but it is well below pre-recession levels.

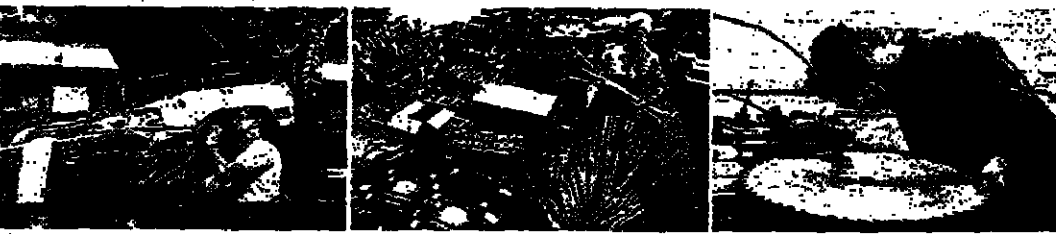
Consequently, as Ms Kate Barker, chief economist with the CBI, says: "Companies are not getting margin growth that everyone thought we would this year. Unit labour costs and commodity prices are clearly less favourable than last year."

But as she points out, input prices represent only a small part of the business balance sheet. Commodities, for instance, are estimated to account for about 5 per cent of overall manufacturing costs, whereas labour accounts for up to 40 per cent. At the same time, as Mr Ian Shepherdson, economist at brokers Midland Global Markets points out, profit margins are still at a high level compared with the past 15

Feeling the pinch around the middle

Gillian Tett and Daniel Green explain why some – but not all – manufacturers' margins are being trimmed

UK manufacturing: the big squeeze



years. He estimates manufacturers' margins – defined as the proportion of final prices accounted for by profit – were just under 22 per cent last month.

Some economists believe this means that many companies can hold prices down. As Mr Robin Aspinall of broker Panmure Gordon argues: "UK companies have had a pretty easy time of it so far. Demand has been picking up, they have trimmed costs, and so you have seen big profit growth."

But others are voicing concern about specific sectors. Economists at brokers Kleinwort Benson, for example, say they are warning their customers to avoid companies dependent on commodities, such as metals, because of the fears of a price squeeze on profits.

The problem, though, is that the trail of products in the metal industry – from iron ore through metal package manufacturer to a can of baked beans on a supermarket shelf – shows margins under pressure in some areas, but not others.

British Steel, for example, says

that its raw materials – principally coal and iron ore – have, if anything, become cheaper in recent months, partly because most are priced in dollars, a currency down 5.7 per cent in value against sterling since January.

But British Steel has apparently decided that the market can withstand a price hike, after what it describes as "a disastrous fall in steel prices in 1990" that reduced average prices by 20 per cent. British Steel product prices have risen by an average of about 13 per cent since January.

British Steel's customers are unhappy about this. For example, the cost of tin-plate, made by British Steel and sold to packaging makers such as Carnaud Metal Box, the Anglo-French group, and France's Pechiney has risen this year by 8 per cent, says the UK Metal Packaging Manufacturers Association. Mr Robin Davis, the association's director, says: "Continental tin-plate suppliers also raised their prices by about 8 per cent this year and our members are not find-

ing it possible to pass on that increase in total."

The main reason manufacturers cannot pass it all on, he says, is the heavy competition in international packaging. Consequently, tin can prices have risen by only about 5 per cent this year, says Mr John Nichols, managing director of HL foods, a subsidiary of the Hillsdown food manufacturing company.

Similarly, the buyers of cans – the food "packer-fillers", such as Hillsdown – have not been able to pass on all of their increased costs. "Can prices have gone up, bean prices have gone up, but our prices have not yet gone up," says Mr Nichols. He says cheap imports of canned foods and supermarket price wars have all acted to constrain the prices his company charges.

But if the steel products manufacturing chain provides some evidence that a crunch on profit margins has begun in parts of the manufacturing chain, the picture is not as clear in other sectors, such as oil-based products. The oil price has risen by about

20 per cent in sterling terms since the beginning of this year, leading to similar rises in the price of the main raw materials for the chemicals and plastics industries.

German chemicals company BASF, which has plants in the UK and continental Europe, says raw material prices are rising faster than output prices, particularly for naphtha, used to make ethylene and some plastics, cyclohexane, used in fibre manufacture, and methanol, a raw material for glues.

But Mr David Glass, of specialist chemicals industry consultancy Chem Systems, says these rises are not hitting the profitability of the chemical industry, because demand is leading to rising volumes. In a capital-intensive industry such as chemicals, the cost of producing an extra tonne is low once a plant is constructed and running.

"The chemicals industry is highly geared to volume, which is improving margins in spite of the fact that naphtha prices have risen so much," says Mr Glass.

In fact, the chemicals industry is having to rely on volume growth to preserve profits, because customers are unwilling to pay more. Mr Stuart Wallis, chief executive of Bowater Packaging, a big plastics user, says: "We are big enough to say to our suppliers that, until we can raise our own prices, we will not pay more."

Not all companies are big enough to gain from economies of scale and bargaining muscle. As Mr Richard Brown, deputy director of the British Chamber of Commerce, points out, smaller manufacturers often suffer more than the largest groups.

The message from the government and many economists is that, with inflation low, manufacturers large and small must learn to thrive without relying on price rises.

To a large extent, that adjustment has been taking place for some time. Treasury figures show that the gap between the trend growth rate of input and output prices has been narrowing steadily over the past 20 years.

But as Mr Eddie George, governor of the Bank of England, admitted last November, adjusting to lower prices and smaller profit margins will not be easy. Many businesses are still looking for returns more suited to a high-inflation era, he argued. These expectations needed to be reduced if Britain was to sustain a low-inflation economic recovery, he insisted.

At the time, his comments picked some manufacturers. But rising raw materials prices are forcing businesses to think again. The next few months will reveal the choice made by industrialists, and the effects of that choice on UK industrial health.

Exports must drive UK recovery



PERSONAL VIEW

Today's new evidence that consumer spending is continuing to grow in the June Confederation of British Industry distributive trades survey, will be welcomed as a further sign that the recovery remains on course. But in front of every silver lining sits a cloud. How long can a consumer-led recovery proceed, before the authorities take fright at the inflationary risk and seek to dampen it down with an interest rate rise?

The latest official sales figures show volumes up by 4 per cent on a year ago. And the survey published today shows that sales grew more strongly in the year to June, after a slight slowdown in the annual rate of increase in the early part of this year.

Retailers report that sales growth is back on the improving trend seen in the second half of last year. And they are optimistic about the future, expecting the pace of recovery to be maintained.

Of course there are some sectoral

differences. The strongest improvements in trade are reported by off-licences, shoe shops and furniture stores. Booksellers and stationers are doing well, too, though hardware and do-it-yourself retailers report falling volumes compared with a year ago.

On these hot summer weekends we are sitting at home in a new chair with a can of beer and a good book, leaving the decorating to ourselves. The prime minister's image of a nation at ease with itself, perhaps.

The housing market remains in an uncertain condition, perhaps partly because there remain well in excess of 1m households with negative equity. The withdrawal of attractive fixed-rate mortgage offers has also set things back. But even there we see some signs of a slightly improving trend, and of associated increases in sales of household durables and carpets.

The overall tone then, remains strong, stronger than many had predicted in advance of the large personal tax increases which began to take effect in April. Why have those increases had so little effect so far? Partly, we think, because not all

of the effect has yet been felt. The increases in National Insurance contributions, and the reduction in the value of mortgage interest relief, have clearly hit pay packets already. But the impact of 8 per cent VAT on fuel bills will not be fully appreciated until later in the year when fuel bills begin to rise in the cold weather and the full 17.5

The overall tone remains stronger than many predicted in advance of the personal tax increases

per cent rate follows next April.

Reductions in unemployment may also be helping to offset the tax rises. Unemployment has now declined by more than 270,000 over the past year, giving a larger than expected boost to personal disposable income. Downward movements in the savings rate, as interest rates fell, have also continued to boost consumption. And although consumer credit expansion has slowed

a little in recent months the trend is a growth rate still higher than it was last year.

It is clear from all this evidence that consumer spending has been the main engine of recovery for the last two years. Given the poor international, especially European, background that was perhaps inevitable. But if the recovery is to be sustained, we need to be looking over the next 12 months for a greater contribution from investment, and from net trade.

So far, private sector investment has barely begun to pick up. Even now, the CBI's Industrial Trends Survey shows only slightly more manufacturers expect to increase investment in plant and machinery next year than to cut it. This is a somewhat disappointing picture after nine quarters of expansion. Public sector investment has not taken up the slack.

And, on the trade front, while the figures for transactions with the rest of the European Union are more than usually suspect, there are still no strong indications of a significant improvement in our trade balance.

Anecdotal, there are signs that improved business confidence may soon bring a boost in investment. That is what companies tell me as I travel the country. And the improving tone of the UK's leading markets in Europe is producing a more favourable trading environment than for some time.

But we need to see some more tangible results soon, or the authorities will surely take further action to dampen consumer spending and boost saving.

Our hope – and expectation – is that the balance of recovery will shift towards investment and exports later this year, and that the Bank of England will not need to tighten policy sharply to stop consumer spending growth accelerating. But the next three months will be a crucial period, in which the shape of the recovery will be determined.

Howard Davies

The author is director-general of the Confederation of British Industry

Brussels spout hacked off

Who'd be a British hack in Brussels? Things could turn a shade unpleasant, now that Belgian prime minister Jean-Luc Dehaene – voted by John Major as the man to succeed Jacques Delors as president of the European Commission – has publicly pinned the blame on an alleged British media conspiracy.

Dehaene told the Belgian newspaper *De Standaard* yesterday that "the British tabloid press turned me into a caricature". Delors could have told him that, regrettable though it may be, such shabbiness went with the brief. More intriguingly, Dehaene also wagged a finger at that supposedly objective institution, the BBC, which he accused of depicting Belgians as "some sort of European ayatollahs" when Belgium held the European Union's rotating presidency last year.

To imply today's British media is somehow in cahoots with John Major does show remarkable imagination. Maybe Dehaene should have got the job, after all.

No thanks

What's this? A charity turning down donations? Shared Interest, the Newcastle-based organisation that

lends money to disadvantaged groups in the Third World, is evidently a little particular about where its cash comes from.

Its international partner, the Ecumenical Development Co-operative Society, was recently offered a \$10m interest-free loan, as well as a \$450,000 grant to help its activities in eastern Europe. But the offer came from the foundation set up by market speculator George Soros. Shared Interest voted against accepting the donation out of moral disapproval of the way Soros prospered from the plunging pound on "Black Wednesday" in 1992.

Being black-balled is probably a novel experience for Soros. Still, the path to sainthood has never been easy.

Rich pickings

It has its problems, but Mexico still spawns dollar billionaires, according to *Forbes* magazine, which reckons there are now 24 Mexican billionaires, against 18 last year and just two in 1991.

Topping the list, weighing in at an estimated \$6.8bn, is Carlos Slim Helu, head of the national telephone company. He's closely followed by Emilio Azcarraga, \$5.4bn, chairman of the principal television network.

Not far behind is the Zambrano family – \$3.1bn – which controls Cemex, Mexico's main cement company, followed by a new entry,



the Peraltas – \$2.5bn – who have just sold a chunk of their cellular phone business.

Forbes' annual rich list is not universally admired: some of its Mexican members believe it saves Mexico's kidnappers from doing their own research.

One irate member describes it as "total stupidity". Not that he was afraid, he added – the bandits would be far better informed than *Forbes*.

Pittdown purse

And now, a word of warning to all those hapless European parents who have only just got around to junking Mutant Ninja

Turtle, Batman, Jurassic Park (etc) T-shirts, pencil cases, underwear and so on, accumulated by their children from bygone ages. Go into hibernation now – the Flintstones are coming.

The whole world – apart from Ulan Bator maybe – is about to be swamped with Flintstones' merchandise, coinciding with the release of a film based on the cartoon covenants characters. Turner Home Entertainment owns the rights, and wild pterodactyls won't stop the onward march towards merchandising sales estimated at \$540m.

And the profits? Prehistoric, by some US corporate standards.

Eggshattering

Don't talk about roast chicken in Japan: it's something of a problem right now.

Some southern parts of the country are experiencing the driest, hottest summer for 20 years. Very nice for tourists perhaps, but tough on chickens.

In the past three weeks, some 110,000 chickens have expired on poultry farms in Tokushima, a southern state where 6.4m, or about 5 per cent of Japan's chicken population live.

The problem is the heat. Last week, local temperatures reached 38.4 degrees Celsius – 109 Fahrenheit – the highest since records started in 1929. If you can't stand the heat, get

out of the kitchen. Though hardly a useful motto for chickens.

Count on me

Ignoring the fact that nature helpfully provided most people with 10 fingers, the London Stock Exchange tried to smooth the way to 10-day rolling settlement yesterday. It sent out an abacus to a select few investors.

The gift – featuring black plastic beads on a steel frame – went to those in City firms who were involved in planning rolling settlement.

Of course, merely a bauble; no suggestion that some types actually need aids to tot up their takings – or otherwise.

Tea interval

A recent FT report on Everton football club obviously touched a sore spot. The item suggested the club betrayed a mean streak by not offering shareholders even a cup of tea at its annual general meeting.

Now it's not just tea, but gin 'n' T. At last week's shareholders' meeting – to discuss the club's rights issue – chairman David Marsh said the Goodison Park bar would be open afterwards for free drinks "as a result of adverse publicity in the Financial Times". If only other bars were so easily prised open...

Israel-Jordan talks fuel hopes for Mideast peace

By James Whittington and Julian O'Connell on the Israeli-Jordanian border

"The Arab-Israeli conflict, one of the most longstanding and most intractable conflicts of this century, is drawing to an end," Mr Warren Christopher, US secretary of state, said triumphantly yesterday after he met Israeli leaders on the first day of a Middle East shuttle.

Mr Christopher's optimism reflected the rapid pace of the Middle East peace process as Israel and Jordan opened their first talks in the region yesterday, marking the beginning of a week of intense US-Arab-Israeli diplomatic activity.

The Israel-Jordan negotiations came as Israeli and Palestinian delegates opened a new round of talks in Cairo and Mr Christopher arrived in the region for meetings with the leaders of Israel, Jordan, Syria and Egypt. Mr Christopher will shuttle among Middle East capitals seeking to further the Israeli-Syrian peace process, start talks on economic co-operation and regional integration and prepare for next Monday's summit in Washington between King Hussein of Jordan and Mr Yitzhak Rabin, Israeli prime minister.

The optimism may prove to be misplaced in a region that has often defied prediction and has been in a state of war for almost half a century.

However, Jordanian and Israeli delegates who opened talks in a tent in the Arava desert yesterday said they had had a "very fruitful" day and expected to announce results today, particularly on one of the key issues - demarcation of the disputed border.

Both sides said there were difficult obstacles to overcome, but said they were determined to reach solutions to the other two issues - water resources and security - and finalise them in a treaty of peace. "The prospects for peace are good," said Mr Elyakim Rubinstein, head of the Israeli delegation.

The bilateral talks conclude tomorrow and the process moves

to the Jordanian side of the Dead Sea where Israel, Jordan and the US are to discuss economic projects such as regional tourism, connecting electricity grids and perhaps a transnational oil and gas pipeline. The US, expected to fund many of these projects, is considering paving a road between Israel and Jordan via Eilat.

Mr Shimon Peres, Israeli foreign minister, who tomorrow will become the highest Israeli official ever to visit Jordan publicly, said yesterday: "The main point is this peace will create unprecedented economic opportunities."

Mr Peres also said Israel and the Palestinians were determined to press ahead with peace efforts despite Sunday's bloody clashes in the Gaza Strip. "There's always a place for fear and there's always a place for regret but that won't take away the necessity to go forward," he told Israeli radio.

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Hymn for Mao hypes TV sets to the masses

By Our Beijing Correspondent

A Chinese Communist party hymn written in honour of Chairman Mao Zedong has been reborn as an advertising jingle glorifying a television set.

The song, rendered reverently throughout China after the Cultural Revolution, begins: "The sun is reddest, Chairman Mao is dearest." But, in a national television campaign, this has become: "The sun is reddest, Long Rainbow is newest."

The shock to Chinese ears of recycling the revolutionary and the Palestinians were determined to press ahead with peace efforts despite Sunday's bloody clashes in the Gaza Strip. "There's always a place for fear and there's always a place for regret but that won't take away the necessity to go forward," he told Israeli radio.

Mr Wang's song is famous among Chinese youth as well as those old enough to remember life under Mao. Three years ago, it was featured on a new cassette of Mao music, played on modern western instruments with the addition of a funky beat.

Television viewers, nevertheless, are wondering who would dare tamper with the once sacred words, and how they could get the jingle past the censors.

The answer is hardly surprising in the emerging business culture of modern China: The People's Liberation Army. Long Rainbow is owned by the PLA's commercial arm, Norinco, and the factory, at Manyang city in Sichuan province, is a converted military plant and uses Japanese technology under licence.

Ironically, the Long Rainbow plant came into existence because of one of Chairman Mao's follies. In the late 1950s, he ordered that industries be relocated to the interior from areas vulnerable to attack during a war that never happened.

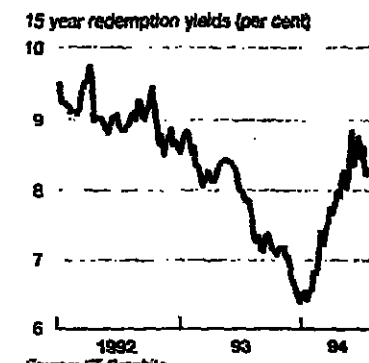
China is trying to revive many of these isolated enterprises by upgrading their technology and turning military equipment factories to civilian uses. Long Rainbow is one of the more successful examples of this policy.

THE LEX COLUMN

Gas mask slips

FT-SE Index: 3082.0 (+7.2)

UK Gilts



of the secrets of the group's success has been an aggressive no-hesitation approach to competitors. It may now feel it has to tone down this aggression.

Mr Bill Gates, Microsoft's founder, was playing down such risks yesterday. According to him, the deal eliminates the possible distraction of a court case and allows the company to focus on devising new products. Certainly, Microsoft's main challenge will be in the marketplace. Computer technology is advancing at such a pace that the group will need to innovate to retain its dominance in desktop operating systems. As Microsoft seeks to establish itself in other segments of the software market such as networking and multimedia, the need for innovation will be even greater.

UK economy

Since the UK economy has survived April's tax increases better than expected, it stands to reason that the impact would be felt on government finances. The gratifying feature of the first quarter of the current financial year is the buoyancy of revenues: Inland Revenue receipts are up 9 per cent, those from Customs and Excise 7 per cent. Since last inflation has also helped keep spending under control, the PSBR for the full year could turn out lower than the government's current forecast of £36bn.

This is reassuring for a bond market which has been inclined to worry about oversupply. The ease with which the market absorbed last week's £800m tap is testimony to the renewed international appetite for gilts. So is the Bank of England's decision to auc-

tion conventional stock this month, even if the expected 2010 maturity only just falls within the definition of long. By comparison with other countries, such as Italy of which more below, UK government finances are starting to look in good order.

There is no guarantee yet, though, that the gilt market can simply resume its bull run. Yields have already fallen some 90 basis points from their recent peak and there is always the risk of a weak dollar triggering further international upset. The PSBR does not mean the structural problem is solved. The market would still look askance if the authorities used the opportunity to ease up on spending or yielded to pressure for tax cuts.

Italy

Before Mr Silvio Berlusconi rode on to the political stage promising radical change, investors used to fret about Italy's political volatility and its public debt-GDP ratio - the second highest in the industrialised world. Three months later, those same worries are re-emerging.

There now appears a real risk that the coalition government will unravel. Given the unpopularity of his current stance, it is not certain that Mr Berlusconi would profit from any ensuing elections. The Comit index yesterday dropped 3 per cent on the uncertainty. The currency and bond markets shuddered too.

The markets seem likely to continue punishing Italy until the political uncertainty is resolved. A convincing plan for correcting the budget deficit is also needed. The worry is that a strong political will is essential to make inroads into the 1995 deficit given the need for structural reforms to pension and health spending. The task grows harder as the yield spread of Italian bonds over bunds widens. It is now 415 basis points, making the deficit ever costlier to finance.

Italy's underlying economy is recovering well. Inflation has fallen to its lowest level for 25 years. The weak dollar will help ensure Italian inflation remains suppressed while the strong D-Mark makes Italian exports all the more competitive. The economy is forecast to grow at about 2.5 per cent next year promising a strong rebound in corporate earnings. Mr Berlusconi must make sure that, after Italy's promising build-up, he does not shoot the gains over the bar.

Rwandan rebels name Hutu president in peace gesture

By Leslie Crawford in Nairobi

Tutsi rebels of the Rwanda Patriotic Front yesterday named a Hutu, Mr Pasteur Bizimungu, as president of what they say will be a broad-based government of national unity, in an apparent attempt to reassure Rwanda's Hutu majority that they have nothing to fear under the new regime.

The RPF is due to install a new government in the capital Kigali today as the remnants of the old Hutu government and army joined the mass Hutu exodus into Zaïre.

As a long-time member of the RPF, however, Mr Bizimungu is not expected to inspire confidence among supporters of the late Hutu president, Gen Juvenal Habyarimana.

The new prime minister, Mr Faustin Twagiramungu, is also a Hutu, but real power will almost

certainly remain in the hands of Gen Paul Kagame, the military commander who formed an army of Tutsi exiles in 1990 to fight the Habyarimana dictatorship.

The RPF is understood to be offering government posts to members of the old ruling party who were not implicated in the genocide of Rwanda's Tutsi population following the assassination of Gen Habyarimana in April.

The new government's chances of receiving international recognition are high, particularly since a special UN reporter on human rights identified the former government as having been involved in directing the massacre of hundreds of thousands of Tutsis.

The US has given representatives of the old government five days to leave Rwanda. Their bank accounts have been frozen. Moves are also afoot in the UN to expel the Rwandan representative on the Security Council.

"The UN will have little choice but to deal with the new government," Ms Alison Desforges, a consultant with Human Rights Watch Africa, the US-based human rights group, said yesterday. "But the international community will also be in a strong position to exert leverage over the RPF, as the new government will be heavily aid-dependent."

France's position will be critical to the success of the new regime. Its military intervention in Rwanda came too late to save Tutsi lives, and now not even the "civilian safe havens" established by French troops in the south-west of the country have been able to stem the flight of the Hutu population into Zaïre.

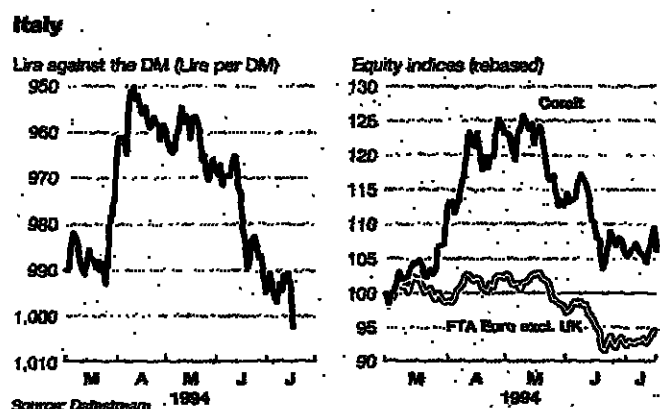
The retreating Hutu army is, however, sheltering behind French lines, and there are signs that the French are uncomfortable protecting perpetrators of genocide.

Rift in Italy's coalition hits markets

Continued from Page 1

atmosphere yesterday. The League said that it would today ask a parliamentary commission for the decree on the custody of corruption suspects to be withdrawn.

This tension will continue to worry the markets, analysts say. Mr Paolo Azzi, a Milan stockbroker, yesterday described the situation as dangerous. Foreign investors with positions in Italian stocks were liquidating them and Mr Azzi said that markets need a clear sign that the split in government has been resolved.



Bank probe

Continued from Page 1

its attempt to improve controls in the group. More recently, it has uncovered "discrepancies in expense claims".

It said that reasons given for the expenses "included gifts to individuals in certain countries to facilitate business, a practice contrary to bank rules and procedures".

The bank has not proved that the specific gifts were passed on to the alleged recipients or that the expenses were genuinely incurred, but the investigation is continuing.

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FT WEATHER GUIDE

Europe today

The warmest air will retreat south of the Alps as a result of a strengthening ridge of high pressure over the western part of the continent. However, it will be sunny with comfortable temperatures in Denmark, Germany, and the Benelux. The British Isles will be sunny, but Ireland and Scotland will have cloud with light rain or drizzle. Heaviest rain will fall in the Alps, where there will be thunder storms and torrential rain at times. The Balkans will also have thunder showers. Scandinavia will be sunny, dry and warm, but Finland will remain cloudy with occasional showers.

Five-day forecast

Sunny and tranquil summer weather will persist over southern Scandinavia, Germany, and the Benelux. France will have plenty of sunshine, but thunder showers may occur at the weekend. The Mediterranean will remain sunny and hot, but cooling thunder showers are expected around the Adriatic.

TODAY'S TEMPERATURES

Location	Maximum	Minimum	Weather
Abu Dhabi	34	24	cloudy
Accra	30	24	cloudy
Algiers	30	24	cloudy
Amsterdam	24	19	cloudy
Athens	33	24	cloudy
Atlanta	32	24	cloudy
B. Anne	22	19	cloudy
Bham	23	19	cloudy
Bangkok	33	24	cloudy
Barcelona	28	24	cloudy
Belfast	21	16	cloudy
Belgrade	30	24	cloudy
Berlin	25	19	cloudy
Bombay	33	24	cloudy
Brussels	24	19	cloudy
Budapest	28	24	cloudy
Cairo	33	24	cloudy
Cape Town	28	24	cloudy
Cardiff	21	16	cloudy
Casablanca	30	24	cloudy
Chicago	25	19	cloudy
Cologne	24	19	cloudy
Dakar	30	24	cloudy
Dallas	31	24	cloudy
Doha	36	24	cloudy
Dubai	36	24	cloudy
Dublin	21	16	cloudy
Dusseldorf	24	19	cloudy
Edinburgh	21	16	cloudy
Faro	27	21	cloudy
Frankfurt	22	16	cloudy
Geneva	30	24	cloudy
Gibraltar	35	24	cloudy
Guangzhou	30	24	cloudy
Hamburg	25	19	cloudy
Helsinki	22	16	cloudy
Hong Kong	30	24	cloudy
Honolulu	30	24	cloudy
Istanbul	32	24	cloudy
Jakarta	32	24	cloudy
Jersey	22	16	cloudy
Karachi	34	24	cloudy
Kuala Lumpur	32	24	cloudy
L. Angeles	28	24	cloudy
Las Palmas	28	24	cloudy
Liège	24	19	cloudy
London	21	16	cloudy
Luxembourg	24	19	cloudy
Lyon	24	19	cloudy
Madrid	28	24	cloudy
Manila	30	24	cloudy
Marseille	28	24	cloudy
Melbourne	25	19	cloudy
Mexico City	22	16	cloudy
Miami	30	24	cloudy
Moscow	30	24	cloudy
Munich	22	16	cloudy
Nairobi	30	24	cloudy
Naples	28	24	cloudy
Nassau	28	24	cloudy
New York	28	24	cloudy
Nice	30	24	cloudy
Nicosia	31	24	cloudy
Oak	25	19	cloudy
Osaka	24	19	cloudy
Paris	24	19	cloudy
Perth	26	24	cloudy
Prague	25	19	cloudy
Rangoon	35	24	cloudy
Reykjavik	32	24	cloudy
Rio	30	24	cloudy
Rome	21	16	cloudy
S. Francisco	25	19	cloudy
Seoul	13	8	cloudy
Singapore	30	24	cloudy
Stockholm	19	14	cloudy
Stuttgart	22	16	cloudy
Sydney	25	19	cloudy
Taipei	28	24	cloudy
Tel Aviv	31	24	cloudy
Tokyo	26	24	cloudy
Toronto	30	24	cloudy
Vancouver	27	24	cloudy
Venice	30	24	cloudy
Vienna	28	24	cloudy
Warsaw	24	19	cloudy
Washington	27	24	cloudy
Wellington	24	19	cloudy
Winnipeg	21	16	cloudy
Zurich	22	16	cloudy

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INTERNATIONAL COMPANIES AND FINANCE

Mexicans trim new issues to match tough conditions

By Ted Bardacke
in Mexico City

Four Mexican companies have overcome difficult market conditions and placed equity offerings worth US\$450m on international markets in the past two weeks, bringing to 20 the number of Mexican companies listed on the New York Stock Exchange.

The companies were forced to lower the number of shares offered and the selling prices. Brokers involved in the offerings say that concern about Mexican political stability and falling capital flows to emerging markets in general made their job difficult.

"The new issue environment is difficult in general and quite difficult for Mexican companies right now. You have to be very selective about how you go to investors and try to sell to those who know particular

industries," says Mr Justin Mansen, co-ordinator of the offering of paper maker Grupo Industrial Durango for the US brokerage house Morgan Stanley. Durango was forced to lower its issue price by 14 per cent to raise \$123m. An additional \$150m was raised through a 7-year, 12 per cent Yankee bond issue, the first private Mexican company to use the market this year.

The other companies with successful equity offerings, mid-sized bank Banpais, real estate developer Grupo Sidek, and industrial conglomerate Grupo DESC, suffered price reductions of 21 per cent, 5 per cent and 10 per cent respectively. DESC also reduced the share offering by 44 per cent, while Sidek cut the number by 34 per cent.

Banpais, which needed the new capital to pay off expensive short-term debt, related to

its recent purchase of insurance company Asemex from the Mexican government, was hit particularly hard as it was forced to borrow again to meet payment obligations.

Grupo Elektra, the home furnishings chain, which had substantial obligations related to its participation in the purchase of the privatised television network Television Azteca, was forced to cancel its planned equity offering when executives judged that potential investors were valuing the company too low.

Mr Kenneth Pryor Jones, the Sidek finance director, shrugged off the price reduction, saying the new capital raised was not as important as the New York listing itself. "When we securitise \$200m in receivables this summer, just the fact that we are listed will enable us to offer those notes 50 basis points lower," he said.

Net profits improve 7% at French power group

By John Ridding in Paris

GEC Alsthom, the transport and power engineering company jointly owned by France's Alcatel Alsthom and GEC of the UK, yesterday announced a rise of 7 per cent in net profits for the year to the end of March, to Ecu329m (\$279m) from Ecu308m.

The net result was achieved on stable sales of Ecu7.93bn and operating profits of Ecu640m, a rise of 15 per cent over 1992-93.

The company, which was formed five years ago, said it had maintained its rate of growth of new contracts, receiving orders worth Ecu9.32bn during the year. This took the year-end order book to a record Ecu17bn, GEC Alsthom said.

The figures for last year's orders do not include the \$2.1bn contract to supply high-speed trains and related equipment to South Korea. The contract, which was signed in June, followed several years of negotiations and was won in the face of competition from a German consortium headed by Siemens.

Since the end of the last financial year, GEC Alsthom has expanded through the acquisition of a controlling stake in Linke-Hofmann-Busch, a German manufacturer of rail equipment. The acquisition, announced last month, is an important step into the German market, and strengthens GEC Alsthom's presence in urban, suburban and inter-city rail equipment.

Kugelfischer's ruthless survival route

The ball-bearings group says its shake-up is unparalleled, writes David Waller

Mr Peter-Jürgen Kreher, chief executive of the FAG Kugelfischer ball-bearings group, chuckles when he recalls giving a lecture to business school students about the principles of crisis management.

"They sat there with their mouths open as I explained that the most important thing was to do a daily check of your bank balance," he says. "You must always know whether you've got any cash - or whether you've gone broke."

Such nitty-gritty details tend to be overlooked in Germany's academically oriented business schools, Mr Kreher says. Had he not paid attention to the daily fluctuations in cash flow when he took over at Kugelfischer early last year, the group would not have survived.

As it is, Mr Kreher has implemented a restructuring plan which he claims is without parallel in the Federal Republic of Germany - in terms of the speed with which the plan was executed and the severity of the measures taken to turn the group round.

At the heart of the group's restructuring was the near halving of the workforce - to 16,000 people at the beginning of 1994 from 31,000 a year earlier.

Debts were halved to DM1bn (\$625m) from DM2bn and turnover shrank 13 per cent to DM3.12bn from DM3.56bn.

reflecting the sale of a clutch of subsidiaries identified as non-core businesses.

"We have achieved something gigantic here," Mr Kreher boasted recently. He predicted that the group, the second largest ball-bearings manufacturer in the world after Sweden's SKF, would make a small profit in the current year - a reversal from heavy losses and near bankruptcy at the end of 1992.

The precarious position was in part due to worldwide recession which led customers, especially car manufacturers, to cut back purchases of bearings. But Kugelfischer's problems were compounded by heavy indebtedness and the ill-fated acquisition of DKFL Deutsche Kugellagerfabrik, an east German bearings manufacturer which Kugelfischer bought in 1990.

In a microcosm of the problems of eastern German industry, DKFL suffered a large drop in sales as former markets in eastern Europe evaporated over 1991-92. When the deal was done in the heady days of German reunification the assumption was that sales would reach DM1.2bn a year - but turnover in the years after the acquisition was never more than a third of that level.

Recognising the gathering crisis Mr Fritz Schäfer, a descendant of Kugelfischer's founders who still owns a majority stake in the company, called in a well-known com-

pany doctor in December 1992. This was Mr Kajo Neukirchen, a former chief executive of the Hoesch steel group who was hauled in by Germany's big banks last December to sort out the mess at Metallgesellschaft, the metals, mining and industrial group which which came close to bankruptcy.

Mr Neukirchen became chairman of Kugelfischer's supervisory board, devising the ruthless blueprint for the company's survival. Mr Kreher, who was appointed chairman of the management board, put the plan into practice. Mr Kreher sums up the plan with a simple slogan: "focusing replaces diversification". Important measures included: ● The sale of all businesses which did not belong to the core activities; these were defined as rolling-bearing manufacturing, sewing technology and materials handling systems.

By January this year the group had sold 13 subsidiaries in sectors including hydraulic brakes, textile machinery accessories, metrology and industrial gauging and control systems, businesses which generated sales of DM730m in 1992. The quick-fire sales brought in DM740m and 5,200 jobs were shed in the process.

● In June last year, the group pulled out of its engagement in the Leipzig-based DKFL, putting the subsidiary into liquidation and shedding 1,800 jobs. What had been one of the big-

gest producers of bearings in the eastern bloc had lost about DM300m in 1992. The engagement cost Kugelfischer DM1bn in total, Mr Kreher says.

● Personnel reduction. On top of the jobs lost as a result of divestments, Kugelfischer has made 8,200 employees redundant and plans further cuts this year and next. The group has achieved annual net savings of about DM1bn as a result.

● Kugelfischer has cut costs further by using fewer materials, cutting investment and streamlining production. Management layers have been thinned and the number of product-lines made by the group has been slashed to 25,000 from 320,000.

The net result of these measures was that Kugelfischer reported a sharp reduction in losses last year. At the parent company they were DM3.1m after DM630m in the previous year, although the losses would have been more substantial but for DM33m in extraordinary profits.

Kugelfischer's restructuring is symptomatic of the kind of rationalisation set in motion at dozens of big German companies during the recession. Among German companies with a stock market listing, analysts expect large increases in earnings for the current year as rationalisation takes effect.

Linotype-Hell reduces deficit to DM57m in first six months

Linotype-Hell, the German printing machinery manufacturer, said its net loss in the first six months narrowed to less than a quarter of the DM57m (\$35.6m) loss a year earlier, AFX reports from Eschborn.

The group said the result was in line with its aim of breaking even in the full year. Sales in the six months were on target while new orders exceeded expectations.

Linotype-Hell said more pre-

cise data on the company's performance in the first half would be published at the beginning of August. It said the next six months should see further improvement after the completion of its restructuring.

The group said the planned break-even in 1994 would be achieved on a "slight sales growth compared with last year".

The company's restructuring, initiated in 1993, was largely responsible for the nar-

rower net loss in the first six months. In this period, Linotype-Hell's US operations saw the strongest improvement in earnings to post a net profit after a "significant loss" a year earlier, the company said.

While new orders from Japan and the UK saw "considerable growth rates... there is no sign of an economic upturn at home". The company reported a 1993 net loss of DM153.4m after a net profit of DM32.1m in 1992.

Skandia agrees to sell US unit

By Christopher Brown-Humes
in Stockholm

Skandia, the Swedish insurance group, said yesterday it had agreed in principle to sell Skandia Texas Group, its Texas direct non-life operation, to Omni Insurance Corp, a US company based in Atlanta, Georgia.

The move continues the Swedish company's efforts to

disengage from direct non-life business in the US, where it is giving greater emphasis to reinsurance. It has sold two other direct non-life groups in the US over the last year.

Skandia said its Texas operations, which generate about \$55m in annual premiums and were mainly focused on motor insurance lines, had not been profitable enough. It said there were no plans to

divest its remaining US direct non-life businesses, located in Oregon and Florida.

Skandia said the Texas sale would have a marginally positive impact on its profit and loss account and balance sheet, but would not disclose precise terms.

Skandia America Reinsurance Group will continue to act as the main reinsurer of Skandia Texas Group.

Dutch airlines to break record

Dutch airlines are expected to transport a record 3m holiday-makers this summer compared with 2.6m in 1993, charter company Transavia Airlines said, Reuters reports from Amsterdam.

Transavia, which is 80 per cent owned by KLM Royal Dutch Airlines, is market leader in holiday air travel to and from the Netherlands with a market share of 46 per cent.

Automotive operations chief quits BBA

By Tim Burt in London

BBA, the UK engineering and motor components group, yesterday said a senior manager was leaving the company over a fundamental disagreement with Mr Roberto Quarta, the chief executive recruited last year to conduct a root and branch restructuring.

In a move described by analysts as ruthless, Mr Peter Crawford, chief executive of the group's automotive division, was told yesterday morning that Mr Quarta was taking his responsibilities and that his tier of management was being abolished.

Mr Quarta, who earlier this

year announced plans for a dividend cut and 2,000 job losses, said Mr Crawford's departure was part of a review of group management. He did not rule out further job losses among senior executives.

The 44-year chief executive, who arrived from BTR last November with a mandate to revive BBA, said he had given management six months to respond to new objectives.

"I split out the aim to achieve double digit growth by 1996, and the automotive division was the key to that improvement," he added.

Profits in the automotive division fell 42.8 per cent to £21.5m (\$32.6m) in the 12

months to December 31 last year, while its turnover of £274.1m against £321.1m represented 40.5 per cent of the group total.

Following that disappointing performance, Mr Quarta is said to have clashed with Mr Crawford over strategy.

Mr Crawford is understood to have called for increased investment in product development in the hope that the division would exploit an upturn in motor manufacturing.

Mr Quarta was keen to cut the cost base in line with its shrinking turnover. "I decided it would be better off dealing directly with the businesses in automotive," he said. "I believe

in short lines of communication."

Mr George Cartwright, chief executive of the friction materials business, and Mr Bob Gaunt, managing director responsible for power transmission systems, will now report directly to Mr Quarta.

Mr Crawford, who earned about £150,000 a year on a two-year rolling contract, was yesterday said to be discussing his severance terms.

Although he has been a director of the division and its predecessor Automotive Products for almost 10 years, sources close to the company said he was unlikely to receive the full £300,000 pay off.

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FINANCIAL TIMES

INTERNATIONAL COMPANIES AND FINANCE

Santa Fe Gold undergoes transformation

Kenneth Gooding reports on the changes which have promoted the US gold producer

Santa Fe Pacific Gold Corporation was virtually unknown to international investors a year ago. But since then it has emerged as the sixth-largest producer of primary gold in North America.

In addition, it has listed 14.6 per cent of the company on the New York Stock Exchange on terms which gave it a total value of nearly \$2bn, and immediately became an important element in the new Financial Times Gold Mines Index.

Its parent, Santa Fe Pacific, the railways group, is to distribute the remaining 85.4 per cent of the gold company to shareholders on September 30.

From then on Santa Fe Gold will have no big controlling shareholder but its equity will be widely held in North America and Europe - about 7 per cent of the company was snapped up by European investors in the recent share sale.

Santa Fe Gold includes some of the assets of Hanson, the Anglo-American conglomerate, acquired with Consolidated Gold Fields of the UK and swapped in June last year for Santa Fe's coal and aggregate operations.

That deal transformed Santa Fe Gold into a producer with an anticipated 1994 gold output of 900,000 troy ounces. It also has among the lowest costs in the world: \$187 an ounce cash costs and \$267 total costs in the last reported quarter. In North America only American Barrick, the Canadian group, has lower costs.

And, like American Barrick, Santa Fe Gold has one of the biggest gold reserves in North America, amounting to 14.1m ounces. However, these were estimated using a gold price of

\$400 an ounce, which some analysts feel was optimistic. With gold at \$350, Santa Fe Gold's reserves fall to about 12.3m ounces.

Santa Fe Gold, with headquarters in Albuquerque, New Mexico, has about 1,500 non-unionised employees and three mines. These are Twin Creeks (a combination of Hanson's Chimney Creek and Santa Fe's Rabbit Creek merged to produce the third-biggest primary gold mine in the US) and Lone Tree, both in northern Nevada, and Mesquite in southern California.

It is one of the biggest holders of mineral rights in the western US, controlling more than 6.5m acres of private mineral rights, including more than 1.8m acres in northern Nevada where most US gold is produced today.

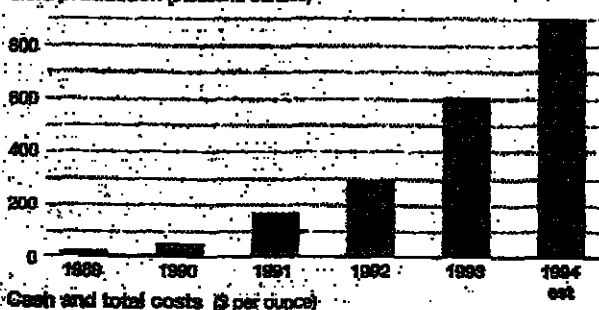
Mr Dick Zitting, Santa Fe Gold chairman, recognises that investors in gold companies look for growth and measure that growth by ounces produced.

He can promise no immediate large increase and says output will be static for the next year or so. There are projects in the pipeline but it is taking longer to bring them into production - the permitting process in the US is now a long, drawn-out affair, he points out.

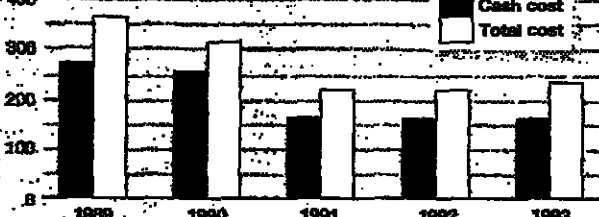
Santa Fe Gold intends to grow mainly by its own exploration efforts, Mr Zitting insists. Both the old-style Santa Fe Gold and Gold Fields had good exploration records and the merger produced an experienced exploration team of 140 people. "You get so much more added value when you find your own gold rather than buying it from someone else," he points out. Nevertheless, "we recognise

Santa Fe Pacific Gold

Gold production (thousand ounces)



Cash and total costs (\$ per ounce)



Source: Company report

that to maintain output or grow we will have to make acquisitions."

Santa Fe spent \$22m on exploration last year and will spend between \$25m and \$30m in each of 1994 and 1995. About 75 per cent will be spent in the US and the rest in other countries where the group is searching for gold, Canada, Mexico, Chile and Uruguay.

Mr Zitting says exploration efforts outside the US will gradually build until spending there accounts for about half the budget.

Santa Fe Gold has agreed a joint venture with Codalco, the state-owned Chilean group, on the Cerro Coya gold property near El Salvador. This project, high in the Andes next to Huestache's El Hueso mine, will be drilled

when the spring weather comes to Chile.

Back in the US, Mr Zitting suggests Santa Fe Gold will by the year-end decide whether to go ahead with the Mule Canyon advanced exploration project, acquired in the Gold Fields exchange. This is 12 miles east of Battle Mountain, Nevada.

Last year Santa Fe Gold spent \$11.3m developing its mines and this will rise to \$12m in 1994. The 1994 capital budget is about \$75m, including \$14.2m to complete the Lone Tree mine expansion.

Since 1992 the company has spent \$112m on this scheme, which enables it to extract gold from refractory (difficult) ores at Lone Tree. Most of the money went on an autoclave - similar to a huge pressure cooker - used to oxidise ore.

Mr Zitting says the autoclave, completed in February, is "going like a jewel" and already processing at 110 per cent of rated capacity. The project lifted Lone Tree's annual gold output to 200,000 ounces and increased the mine's life by nine years to 14 years.

Santa Fe Gold is now considering putting a similar autoclave into operation at the Twin Creeks mine at an estimated cost of \$200m over two or three years.

Mr Zitting points out that Santa Fe Gold might not be able to recover up to 57 per cent of the reserves at Twin Creeks without the autoclave so "it would have to be very harsh circumstances for us not to go ahead".

The \$250m net proceeds of the recent share sale have been used primarily to repay Santa Fe Gold's debts. It was left with \$22m cash. Pro forma accounts for 1993 show net income of \$43.2m or 34 cents a share. The company produced 847,000 ounces of gold and sold 85,000 ounces at an average realised price of \$377 an ounce.

A gold hedging programme enabled the company to do better than if it had sold its metal on the London Bullion Market where the average last year was \$360. Hedging will continue, "when deemed appropriate", says Mr Zitting. At March 31 it had sold forward 646,000 ounces at an average price of \$365 an ounce and also bought "put" and "call" options on another 127,500 ounces.

Mr Zitting says Santa Fe Gold's capital outlays this year can be covered from operations. And it intends to pay a regular dividend of 5 cents a share.

The Financial Times plans to publish a Survey on

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* Professional Investor Community Worldwide Survey 1993/94
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FT Surveys

Daewoo plans Europe network

By John Burton in Seoul

South Korea's Daewoo group yesterday said it would establish next year an independent distribution network to market its cars in eight western European countries.

Daewoo Motor, South Korea's third-largest car producer, was prevented from selling its cars directly in Europe under its joint venture con-

tract with General Motors of the US.

But under the terms of the agreement ending the partnership in 1992, Daewoo was granted the right to market its cars in Europe in 1995 and in the US in 1996.

Daewoo produced the Opel Kadett under licence for GM. The car sales subsidiaries, to be managed by the group's trading company Daewoo Cor-

poration, will be in the UK, Germany, France, Switzerland, Austria, Belgium, Luxembourg and the Netherlands.

Daewoo will be the first South Korean car manufacturer to establish an independent sales network in Europe. Hyundai and Kia, the country's first and second biggest car companies, sell their vehicles through local dealerships under contract.

Opposition fails to halt Petron sale

By Jose Galang in Manila

The second stage of the Philippines' largest privatisation, a public offering of shares representing 20 per cent of oil-refiner Petron, got under way yesterday in spite of attempts in the Supreme Court by the government opposition to derail it.

Petron is the Philippines' largest oil refining and marketing company, with an estimated 45 per cent share of the local market for petroleum products. The latest offer of 1bn shares is intended to reduce the government's holding to 40 per cent.

Last December, the Saudi Arabian Aramco oil group bought a 40 per cent stake with a bid of \$502m.

The new offer is being made in two batches. The first, on offer from yesterday until August 5, is for 700m shares, at a price of 9 pesos a share. This batch will be restricted to Filipino investors.

The remaining 300m shares will be offered in blocks of at least 6,000 shares, with a minimum tender price of 9 pesos a share.

Opposition members of Congress have initiated a case in the Philippine Supreme Court to stop the sell-off which, they say, puts local investors at a disadvantage.

The minimum price of 9 pesos for the current stock offering is higher than the equivalent 6.70 pesos paid by Aramco for the 40 per cent it won last December.

Taiwan food group ahead at half-time

By Laura Tyson in Taipei

President Enterprises, Taiwan's biggest integrated food processing and retailing conglomerate, posted preliminary pre-tax profit of T\$1.65bn (US\$62m) in the six months to June 30, up 53 per cent from T\$1.07bn in 1993.

The increase was attributed to the T\$520m sale of a south Taiwan pig farm to be converted into a condominium development. Pre-tax profits in core operations, minus the land sale gain, rose 4.9 per cent on the year.

Total first-half revenues edged up 2.6 per cent to T\$11.8bn from T\$11.5bn in the first half of last year. ● United Micro Electronics, one of Taiwan's leading integrated circuits and semiconductor manufacturers, saw preliminary pre-tax profit more than double in the six months to June 30 to T\$2.71bn (US\$101m) from T\$818.9m a year earlier. First-half revenues rose 65 per cent to T\$6.64bn.

IHL rejects A\$133m takeover bid

By Bruce Jacques in Sydney

Directors of Independent Holdings (IHL), the Australian wholesaler, yesterday rejected the A\$133m (US\$97.7m) bid for the company launched on Friday by its rival Davids Holdings. The managing director of IHL, Mr John Patten, said he supported rationalisation in the industry, but the Davids

bid was "grossly inadequate". The bid, at A\$4.25 cash a share, is the latest in a flurry of corporate activity in the fragmented and incestuous Australian grocery industry.

It follows last month's A\$501m move on wholesaler Foodland Associated by New Zealand rival, Rank Commercial, and Australian retailer Coles Myer. The bid for Food-

land, which controls 18 per cent of IHL, has been blocked in the Australian courts following intervention by the Trade Practices Commission. The TPC intervened in the IHL bid at the weekend, extracting an undertaking from Davids that, if successful, it would sell IHL's 30 per cent interest in wholesaler Composite Buyers.



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S.G. Warburg & Co. Inc.

June 1994

INTERNATIONAL COMPANIES AND FINANCE

Lac rebuffs takeover bid from Royal Oak Mines

By Bernard Simon
in Toronto

Lac Minerals, the Toronto-based mining group, has scathingly rebuffed Royal Oak Mines' \$2bn (\$1.4bn) takeover bid, describing the offer by the Vancouver-based gold producer as inadequate and opportunistic.

Lac's board unanimously advised shareholders to reject Royal Oak's cash-and-shares offer, which was made on July 7.

Royal Oak had no immediate response. Investors and analysts have given the Vancouver company credit for drawing attention to Lac's shortcomings. Several sizeable Lac shareholders have gone on the record in the past 10 days to support the rationale behind Royal Oak's bid.

Nevertheless, many outsiders doubt that Royal Oak will emerge victorious. A competing bid is widely expected.

Lac is about three times bigger than Royal Oak. But its share price has underperformed other North American gold producers, despite the high quality of its assets.

Ms Peggy Witte, Royal Oak's pugnacious president, has estimated that she could chop at least US\$40m from Lac's annual operating costs.

Mr Jim Pitblado, a non-executive director of Lac who will act as the board's spokesman in the unfolding takeover battle, said yesterday Royal Oak's offer would leave the proposed new company "saddled with significant interest expense, stripped of cash, highly leveraged and strapped for investment capital just as Lac is

ready to move ahead with significant new mine development programmes."

Mr Pitblado described Royal Oak's offer as "a blatant attempt to rob Lac's shareholders of the true value of their investment with a low-ball offer that provides no real premium and dilutes their interest in Lac's significant growth potential."

He drew an unfavourable comparison between the Lac and Royal Oak mines, claiming that the latter had high-cost operations with unknown environmental risks. Royal Oak has an average cash cost of \$315 per oz, compared to Lac's \$190 an oz.

In a bid to support its claim of the inadequacy of the offer, Lac yesterday raised its estimate of its gold reserves from 8.6m to 13.5m ozs.



Michael Eisner: is expected to return to work in few weeks

Walt Disney chairman has heart surgery

By Marjorie Dickson
in New York

Mr Michael Eisner, chairman of Walt Disney and the prime engineer of its strong growth record over the past decade, underwent quadruple coronary bypass surgery at the weekend, raising a question mark over the depth of management at one of the world's most successful entertainment companies.

Mr Eisner, 52, is expected to leave the Los Angeles hospital in several days and return to work in a few weeks.

In a statement released by Disney, his surgeon said the operation was a "normal bypass procedure without any complications".

The illness comes at a delicate time for the company. Mr Eisner has been operating without a number two since April when Mr Frank Wells, president of Disney and Mr Eisner's closest associate, was killed in a helicopter accident.

Disney is rumoured to be considering a bid for CBS, the television broadcasting network which made itself a potential takeover target by agreeing to merge with home shopping channel QVC, a deal now abandoned.

Many analysts think CBS would make a strong fit with Disney, which already owns a cable television channel and makes programmes for the broadcasting networks.

Disney is also locked in battle with a group of eminent US historians over its plans to develop a historical theme park, called Disney America, on a civil war site in Virginia.

Mr Eisner's condition will likely lead to calls for him to appoint a number two quickly. One candidate is Mr Jeffrey Katzenberg, who heads the company's film studios. He came to Disney with Mr Eisner from Paramount Pictures and has built the studios into one of the most successful in Hollywood.

Disney shares were little affected yesterday by the news of Mr Eisner, rising 5% to 41% in morning trading in New York.

S&P lifts Czech bank's rating

Standard & Poor's has raised its implied rating on the Czech National Bank's senior foreign currency debt to triple-B plus from triple-B, writes Antonia Sharpe. The rating outlook remains positive. S&P said the upgrade and outlook reflected the Czech Republic's smooth transition from a planned to a market economy and that the rating was supported by the country's position as a net international creditor and prudent economic management.

Time Warner ahead at halfway

By Patrick Harverson
in New York

Time Warner, the US entertainment group, has reported a second-quarter net loss of \$23m, sharply reduced from the \$33m loss a year ago due to record earnings at its publishing, music, films and cable TV programming businesses.

During the quarter, combined earnings before interest, taxes, depreciation and amortisation (Ebitda) for the group and its Time Warner Entertainment subsidiary reached \$748m

on revenues of \$3.7bn, compared with Ebitda of \$711m on revenues of \$3.4bn a year ago.

Earnings in the first half were \$1.3bn, up from \$1.34bn in the first six months of 1993.

The group, which was left with a heavy debt and depreciation burden following the 1989 merger between Time and Warner, tries to focus attention on Ebitda as a measure of its underlying performance.

Its Time Warner Entertainment unit (comprising the film, HBO cable channel and cable systems businesses) reports its

operating results on a deconsolidated basis.

Mr Gerald Levin, Time Warner's chairman, singled out the contribution of the group's publishing business, where Ebitda in the quarter jumped 19 per cent to a record \$125m. Gains in advertising sales and circulation of its large stable of magazines were behind the improvement.

Time Warner's music unit made second-quarter Ebitda of \$150m, also a record, up 10 per cent from a year ago due primarily to improved operating

results at Warner Music International.

Record operating earnings were also posted by the group's filmed entertainment and HBO cable channel units, where Ebitda reached \$267m and \$67m, respectively.

Cable operations, however, did not fare so well in the quarter, reporting Ebitda of \$256m, down from \$270m a year ago, as the impact of the reduction in rates imposed by Congress last September offset gains achieved from customer base growth.

Genentech income jumps threefold

By Richard Waters
in New York

Post-tax profits at Genentech, the US biotechnology company majority owned by Roche, the Swiss drugs group, jumped threefold in the second quarter as product sales rose by more than a third.

The company reported net income of \$33.4m or 28 cents a share, up from \$10.4m or 9 cents the year before, and broadly in line with market expectations.

Behind the growth in product sales, to \$152m, were a 32 per cent rise in Activase, a drug used to prevent blood clotting, to \$73.5m, and an 11 per cent advance in the company's two human growth hormones, to \$59.5m.

Sales of Pulmozyme, taken by cystic fibrosis sufferers,

launched in the first quarter, reached \$18.7m.

Mr Kirk Raab, president and chief executive, said Activase sales growth could be further reinforced by a recent recommendation from a Food and Drug Agency advisory committee. This could lead to larger dosages of the drug being taken in the treatment of heart attacks.

Research and development spending, at \$73m, was down from \$94m a year before which a one-off charge of \$13.7m was included.

Spending on R&D would increase in the second half of the year as later-stage clinical trials started on a number of additional products, Genentech said.

For the half-year as a whole, net income rose to \$72m on sales of \$394m, up from

\$25m on sales of \$323m.

Outside the US, however, sales slipped in the second quarter on growing generic competition to some of its biggest products. The slowdown, however, was not as rapid as some industry observers had expected.

The company reported post-tax earnings of \$120m on sales of \$891m, down from \$125m on its sales of \$895m the year before.

Earnings per share, at 67 cents, were three cents lower than the corresponding period but comfortably ahead of market expectations at around 60 cents.

Upjohn said US sales of Xanax, the anti-anxiety treatment which is its biggest-selling drug, had fallen 64 per cent to \$80m during the period. US

sales dropped 8 per cent overall, to \$500m.

Outside the US, however, revenues rose 11 per cent to \$391m, buoyed in part by higher sales of Xanax.

Mr John Zabriske, the company's recently appointed chairman and chief executive, pointed to recent registration filings in 25 countries for Free-dox, a haemorrhage treatment, as a sign of Upjohn's attention to the development of new products.

Patent expiries on a number of its drugs in the US and the takeover of US rival Syntex have pushed Upjohn to the top of most analysts' lists of potential takeover candidates in the pharmaceuticals industry.

For the first half as a whole, net income fell to \$355m or \$1.43 a share from \$253m or \$1.55 the year before.

American Barrick profits jump

By Robert Gibbens in Montreal

American Barrick Resources, the North American gold producer expanding internationally, has posted strong profit gains in the second quarter and first half.

Gold output rose 24 per cent to 947,535 ounces in the first half, with most of the gain at the Betze-Post mine in Nevada.

Average realised price was US\$404 per oz sold, against the

average spot price of \$388 and with higher output, operating costs dipped to \$163 per oz, compared with \$172 per oz.

Net profit in the June quarter was \$52.4m or 22 cents a share against \$57.2m or 20 cents a year earlier, on gold sales of \$307m, against \$175m. Gold sales were \$13,412 oz, up from 427,741 oz.

First-half net profit improved to \$122.8m, or 43 cents a share, from \$103.2m, or 36

cents, an increase of 19 per cent, on gold sales of \$395m, against \$315m.

At June 30, Barrick had \$382m in cash and short-term securities and little debt.

According to Goldman Sachs and Salomon, Barrick will pass Placer Dome, Newmont and Homestake to become North America's biggest gold producer with output of 1.84m oz. It also holds one of the largest gold reserves.

Domtar to spin off Quebec mill

DOMTAR, a big Canadian forest products group, will spin off its northern Quebec kraft pulp mill into a separate unit partly held by employees and the public, writes Robert Gibbens.

Domtar will spend C\$250m (US\$182m) at the Quevillon mill to put in secondary treatment, a new boiler and a cogeneration plant. Capacity will rise from 250,000 tonnes yearly to almost 300,000 tonnes.

Quevillon, 400 miles north of Montreal, ships high quality pulp to Domtar's fine paper mills and also to outside customers.

Algoma Steel rebounds strongly to C\$33.2m

By Robert Gibbens

Algoma Steel, restructured in 1992 at the height of the recession, is rebounding strongly. It has been boosted this year by rising demand for sheet and most of its other products, higher prices and a lower Canadian dollar.

In the second quarter to June 30, net profit was C\$33.2m (US\$24.1m), or \$1.26 a share, against \$1.26, or 17 cents, a year earlier. Revenues rose 7 per cent to \$262m. It was the fourth consecutive

quarterly profit for Algoma, which produces about 2m tonnes annually. In the first half the group recorded net profit of \$49.2m, or \$1.87 a share, compared with a loss of \$22.3m, or 85 cents, a year earlier, on revenues which advanced to \$528m from \$446m.

Algoma said rolled products continued to perform strongly and volume was improving in tubular products and structural. "The first half is indicative for the rest of the year," said Mr Glen Manchester, finance director.

Coca-Cola shrugs off private label competition with 13% rise

By Richard Tomkins in New York

Coca-Cola, the US soft drinks group, increased net profits by 13 per cent to \$758m in the second quarter in spite of competition from private label colas in several of its biggest markets.

Last month PepsiCo, manufacturer of Pepsi-Cola, warned that its second-quarter profits would be virtually flat, partly because of price competition in the US soft drink market and because of poor results from its fast food operations.

Coca-Cola said its soft drinks

volumes grew by 6 per cent in North America in the second quarter, helped by the introduction of new "contour" packaging for classic Coca-Cola and Diet Coke, and a successful Sprite advertising campaign.

It did not report separate profit figures for North America. But the company tends to be less directly affected by price competition than PepsiCo because price cuts hit the bottlers first, and unlike PepsiCo, Coca-Cola does not own its bottlers.

Internationally, Coca-Cola saw zero volume growth in the European Union countries and

only 1 per cent growth in Japan. It blamed poor economic conditions for these results. But rapid growth in developing markets produced total international volume growth of 7 per cent.

Group revenues rose by 11 per cent to \$4.34bn and earnings per share, as predicted by the company last month, rose by 13 per cent to 59 cents.

Half-year net income was 14 per cent ahead at \$1.28bn.

Coca-Cola bought back 6m of its shares in the second quarter, taking the year-to-date total to 10m. There are now 1.29bn shares outstanding.

EBRD set to launch Ft1bn bond issue next week

By Graham Bowley

The European Bank for Reconstruction and Development is due to launch its first issue of public debt in an eastern European currency on Monday with a Ft1bn (\$10m) bond issue, the first public bond in Hungarian forint issued by an international borrower.

It is a move the EBRD hopes will lead to more funds being raised in regional currencies, which would eliminate foreign exchange risk for borrowers and assist the development of the country's capital market.

The issue, open to both Hungarian and foreign investors, and the first tranche in a programme of up to Ft5bn (\$50m), will help finance the building of a toll motorway between Budapest and Vienna.

"If this programme is a success we hope to extend it as a standard bank product to other eastern European markets such as the Czech and Slovak Republics, and Poland," said Mr Louis de Montpeller, director of funding at the EBRD.

The initial Ft1bn tranche will be launched at par with a maturity of five years and a coupon of 27.75 per cent per annum for the first six months followed by a floating-rate coupon.

Job cuts and \$150m charge at Arco

By Richard Waters
in New York

The shrinking of the US oil and gas industry continued apace yesterday as Atlantic Richfield announced a further \$150m after-tax charge and a plan to cut its workforce by 2,000 more people by the end of next year.

Late last year, Arco took a \$450m charge and announced 1,500 job cuts as part of a reorganisation of its US oil and gas business outside Alaska, the location of its biggest US production activities.

Taken together, these moves will leave the company with

annual costs which are \$400m lower by 1996, Mike Bowlin, Arco's president and chief executive, said yesterday.

Like others, Los Angeles-based Arco is attempting to channel a greater share of its capital spending into international ventures, which hold out the prospect of bigger discoveries and higher profits margins.

Two weeks ago, Texaco announced it was cutting 2,500 workers and selling half of its US oil-producing properties, while Chevron last week said it had found a buyer for its San Francisco headquarters building, though the name and likely sale price were not disclosed.

Among the latest round of job cuts at Arco, the company said it would reduce its workforce in Alaska by 750. At the end of 1993, the company employed 35,000 people, 20,000 of them in the US.

The latest charge, to be taken in second-quarter figures due shortly, results from improvements in the retirement and benefits package for former workers. Much of the earlier, \$450m charge reflected write-downs in US assets.

Rohm & Haas expects big earnings rise

Rohm & Haas, the US chemicals group, yesterday reported that its 1994 results will be substantially above 1993 earnings and may exceed the company's record 1988 performance of \$230m. Reuter reports from Philadelphia.

However, currency changes and the current upward trend in raw material costs could influence the third-quarter results.

Rohm & Haas said that price increases in key feedstocks, including ammonia, methanol, acetone and styrene, would hit its third-quarter costs and force it to raise prices for certain product lines.

The company reported earnings for the second quarter of \$93m, or \$1.37 per common share, up from \$61m, or \$0.90 per share in the second quarter of 1993.

"Earnings are up - that's good news," said Mr J. Lawrence Wilson, the company's chairman and chief executive.

"But they still are below the levels we feel we need to achieve to do well in an industry where competition is becoming more and more fierce."

He added that his company would have to do more to control internal costs.

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STATEMENT OF CONDITION, JUNE 30, 1994

ASSETS	
Cash and Due from Banks	\$161,941,365
U.S. Government Securities	152,714,361
Direct and Guaranteed	65,192,303
State and Municipal Securities	180,500,000
Federal Funds Sold	895,667,584
Loans and Discounts	28,397,204
Customers' Liability on Acceptances	58,051,704
Interest and Other Receivables	47,750,005
Premises and Equipment, net	15,034,333
Other Assets	\$1,545,248,699

LIABILITIES	
Deposits	\$1,322,708,830
Federal Funds Purchased and Securities	8,490,000
Sold Under Agreement to Repurchase	28,825,675
Acceptances: Less Amount in Portfolio	26,371,632
Accrued Expenses	16,852,922
Other Liabilities	\$48,000,000
Capital	96,000,000
Surplus	144,000,000
	\$1,545,248,699

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Postbank Ltd

US \$50,000,000

Subordinated Floating Rate Notes Due 2000

For the interest period 18th July, 1994 to 18th January, 1995 the Notes will carry an interest rate of 5% per annum with an interest amount of US \$143.75 per US \$5,000 Note, payable on 18th January, 1995.

Bankers Trust
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Agent Bank

REPOLA LTD

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US\$100,000,000 Floating Rate Notes Due 1995

Notice is hereby given that the Rate of Interest has been fixed at 6.40% and that the interest payable on the relevant interest Payment Date January 19, 1995 against Coupon No. 10 in respect of US\$100,000 nominal of the Notes will be US\$2,760.00.

July 19, 1994, London

By: Citibank, N.A. (Issuer Services), Agent Bank CITIBANK

MFC Finance No. 1 PLC

Mortgage Backed Floating Rate Notes Due October 2023

In accordance with the Terms and Conditions of the Notes, notice is hereby given that the new interest rates and periods in respect of the subject Notes are as follows:

Payment Date	Rate	Period	Rate
July 19, 1994 to August 1994	5.25%	July 19, 1994 to August 1994	5.25%
August 1994 to September 1994	5.50%	September 1994 to October 1994	5.50%
October 1994 to November 1994	5.75%	November 1994 to December 1994	5.75%

By: Citibank, N.A. (Issuer Services)

July 19, 1994, London

CITIBANK

All of these securities having been sold, this announcement appears as a matter of record only

New Issue

\$342,935,000



Videotron Holdings Plc

Senior Discount Notes due 2004

Merrill Lynch & Co.

Goldman, Sachs & Co.

Citicorp Securities, Inc.

INTERNATIONAL CAPITAL MARKETS

Treasury prices edge higher in quiet trading

By Frank McGurty in New York and
Corrie Middelmann
in London

US Treasury bonds edged higher yesterday morning in quiet trading. By midday, the benchmark 30-year bond was up at 85, with the yield slipping to 7.522 per cent. The two-year note was up at 100, to yield 5.981 per cent.

There was no fresh economic news either to dampen or reinforce the upbeat mood established last Thursday and Friday. Prices for gold and other commodities held steady, and the dollar was enjoying a relatively painless day.

However, activity was restrained, and bonds were unable to break out of their tight trading ranges. Traders were delaying any substantial new commitments until after tomorrow's Humphrey-Hawkins testimony by Mr Alan Greenspan.

In his semi-annual briefing on the state of the economy, the Federal Reserve chairman is expected to tell a Senate committee that the central bank's recent tightening of monetary policy has succeeded in slowing growth without short-circuiting the recovery.

Technical factors, however, were partly offsetting the sanguine view of the fundamentals. The heavy influx of newly issued securities scheduled in the coming weeks was already having an influence.

Tomorrow, the Treasury will announce details of its regular two-year and five-year note auctions.

In early August, the government's quarterly refunding operation will bring billions of dollars in new three-year, 10-year and 30-year bonds into the market, only days before the next meeting of the Fed's policy-making open market committee.

After a soft start, most European bond markets ended higher, supported towards the close by stronger US Treasury and late short-covering in the futures market. Italy was the only exception, with mounting political tensions weighing heavily on bonds and the currency.

GOVERNMENT BONDS

Traders said many investors remained sidelined ahead of impending supply in Germany and the UK, with this week's Humphrey-Hawkins testimony by the US Federal Reserve chairman and the Bundesbank Council meeting on Thursday.

Italian bonds opened sharply lower on the deepening political turmoil over Prime Minister Silvio Berlusconi's recent decree barring preven-

tive detention in corruption investigations.

In an effort to control price fluctuations, Italy's clearing house made a selective call for intra-day margin payments, while the London Clearing House made an intra-day margin call on the Life's Euribor futures contract.

The September bond future was supported by technical support around 102 and recouped some of its early losses on late short-covering. However, political uncertainty, in addition to this week's release of the government's medium-term fiscal package, are likely to make for continued volatility.

German government bonds rose nearly 1/4 point, undaunted by the prospect of this week's 10-year bond issue. The first portion of the bonds will be placed today by the federal bond consortium, with the second

tranche to be auctioned tomorrow. It is the first bond issue since the central bank cancelled two issues due to lack of demand.

"The bond auction will be crucial," said Mr Adrian James, European bond strategist at NatWest Markets in London.

He expects it to go "reasonably well", supported by increased demand for long-dated paper by investors shifting funds from the short end to the longer end of the yield curve.

Bonds were boosted by talk that June M3 money supply numbers, due to be released this week, may show a significant decline and by the Bundesbank's announcement that its council meeting would be followed by a press conference.

This fuelled hopes that the German central bank might cut official interest rates on Thursday.

French bonds rose sharply, catching up with last week's gains in neighbouring markets when France was closed for a national holiday. The September notional bond futures contract on Matif rose 0.88 points to 117.16.

UK gilts were pulled up by the stronger continental markets, with the September long gilt future gaining 1/2 to 103 1/2.

"After their recent rise, gilts are in consolidation mode, but on a robust base," said Mr Ian Sherrington of Midland Global Markets.

The Bank of England today is to announce the terms of next week's auction of conventional gilts in the 2007 to 2011 maturity range. Most market participants expect the auction to meet healthy demand from UK institutions with a natural demand for long-dated assets like life insurance companies and pension funds.

Poor conditions check issue flow

By Tracy Corrigan

Adverse market conditions have checked the flow of international and foreign bond issues this year and reduced the average maturity of bonds launched, according to the latest Financial Market Trends survey by the OECD.

Also, the proportion of fixed-rate bonds has shrunk in relation to floating-rate notes, particularly since interest rates began to rise in February.

New issues totalled \$180bn in the first five months of the year, which implies a year-on-year decline of some \$29bn, according to the report.

However, a large proportion of this activity was concentrated in the first two months, when new issue volume totalled almost \$100bn, with an unprecedented \$20bn raised in January alone.

While long-dated bonds were easily placed even at the turn of the year, when several borrowers issued 20-year and 30-year paper, the maturities of new issues have since declined due to the changes in market conditions, the report notes.

Straight bond issues totalled \$111bn in the first five months, a contraction of almost 34 per cent, while total offerings of floating-rate notes reached \$44.6bn.

Straight bonds accounted for only 62 per cent of the market. The market share of straight bonds has traditionally been around 80 per cent.

For currencies perceived by the market to be near the bottom of the interest rate cycle, there was a marked shift in the first two months from issuance of straight bonds to offerings of floating rates, the report said, citing the dollar, yen and sterling sectors.

Overall, the dollar sector of the international bond market remained the most important, with a 34 per cent market share, but the D-Mark sector fell back sharply from 14.3 per cent to 5.2 per cent.

The OECD says secondary market turnover of bonds and floating-rate notes totalled \$1,800bn in the first quarter, citing industry sources.

The report estimates scheduled redemptions and early repayments at some \$15bn in the first five months, implying net issuance of some \$65bn, which represents a decline of around 20 per cent.

Two leading US retail names beat dollar funding targets

By Antonia Sharpe

Two top US retail names tapped the Eurobond market yesterday in arbitrage-driven transactions which enabled both issuers to beat their dollar funding targets by a comfortable margin.

A three-year \$200m zero-coupon offering from JPMorgan Chase, the big US pharmaceutical group, was designed to appeal to distressed holders of floating-rate notes structured with minimum and maximum coupons.

This market has virtually collapsed in value in recent months due to the volatile interest rate environment.

Lead manager JP Morgan said Merck's bonds, mainly from Switzerland and the Benelux region, a way to recap their capital.

Mr Doug Rees, Merck's finan-

cing director, said the proceeds were swapped into floating-rate dollars at a rate well below its normal US commercial paper borrowing level. Syndicate managers estimated that Merck had made a saving of around 20 basis points.

JP Morgan said about half the deal had been placed yesterday, though it bought back

investors not caught in the so-called "mini-max" trap.

AT&T also made a considerable saving, thought to be around 10 basis points compared with its dollar funding levels, when it swapped the proceeds of its \$500m four-year eurobond issue into dollars.

SBC said the Euro's good performance against the D-Mark had prompted the issuer to pick that currency for its first non-dollar eurobond.

AT&T had also considered lire, Canadian dollars and D-Marks.

The European Community is expected to tap the Euro sector later this week, raising \$200m through an offering of seven-year eurobonds. The yield on the bonds is likely to substantially exceed the French government's 10 per cent Euro bond due 2001. Federal Home Loans Bank System

is also due to raise \$1bn through its offering of two-year global bonds later this week, via Lehman Brothers and Morgan Stanley.

Elsewhere, Salomon Brothers, on behalf of the UK Treasury, said the following privatised companies had repurchased their bonds offered in a sale held yesterday:

NEW INTERNATIONAL BOND ISSUES									
Borrower	Amount \$m	Coupon %	Price	Maturity	Yield %	Spread bp	Book runner		
US DOLLARS									
Merck & Co.	200	zero	82.755R	Aug 1997	0.155R	+5 (74 1/2-97)	JP Morgan Securities		
YEN									
WestLB Finance Corporation	150	2.85	100.15	Nov 1996	0.15		Mitsubishi Finance Int.		
Osaka Electric	100	3.15	100.00	Feb 1997	undist.		Yamashita Int.(Europe)		
EURO									
AT&T	150	7.25	99.85R	Aug 1998	0.25R	+8 (74 1/2-98)	Swiss Bank Corp.		

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. +Unlisted. R: fixed re-offer price; fees are shown at the re-offer level. a) Short 1st coupon. b) Spread relates to French Euro STAMP.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

	Coupon	Rate	Price	Days	Yield	Week	Month
				change		change	change
Australia	8.000	09/04	97.6400	+0.280	9.33	8.74	8.82
Belgium	7.250	04/04	94.0400	+0.040	7.81	7.92	8.10
Canada	8.000	04/04	93.8000	-0.850	9.00	8.32	8.33
Denmark	7.000	12/04	92.3000	-0.160	8.12	8.35	8.46
France	8.000	02/08	104.6200	-0.020	8.28	8.10	7.93
Germany	5.500	04/04	98.0100	-0.080	7.25	7.44	7.88
Italy	8.750	05/04	98.3400	-0.410	8.84	8.97	7.92
Japan	8.500	01/04	105.2100	-0.020	10.48	11.28	
Netherlands	4.000	09/08	104.8900	-0.010	3.63	3.61	3.83
Spain	4.100	12/03	98.0200	-0.450	4.40	4.38	4.48
Sweden	6.750	04/04	97.1800	-0.180	8.91	7.38	
UK Gilts	8.000	05/04	95.7600	-0.250	10.37	10.77	10.87
	6.000	09/08	92.21	+0.522	7.79	8.10	8.47
	8.750	11/04	90.14	+14.82	8.13	8.38	8.78
	9.000	01/04	100.00	+0.020	8.41	8.78	
US Treasury	7.250	05/04	100.07	+0.322	7.22	7.45	7.18
ECU (French Govt)	8.250	06/23	84.30	+1.82	8.33	7.72	7.47
ECU (French Govt)	7.000	04/04	98.4300	+0.380	7.78	8.02	8.29

Source: Reuters International

US INTEREST RATES

	Rate	Yield	Week	Month
			change	change
Prime rate	7 1/2	4.18	Two year	6.59
90-day T-bill	5 1/2	4.37	Three month	6.51
6-month T-bill	5 1/2	4.37	Six month	6.51
Fed funds rate	5 1/2	4.34	One year	7.50

BOND FUTURES AND OPTIONS

FRANCE

NOTIONAL FRENCH BOND FUTURES (MATF)

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Sep	116.30	117.16	+0.86	117.42	116.24	110,220	124,721
Dec	115.28	116.34	+1.06	116.44	115.50	718	14,480
Mar	114.80	115.62	+0.82	115.80	114.50	2	1,917

LONG TERM FRENCH BOND OPTIONS (MATF)

	Strike	Aug	Settle	Change	High	Low	Est. vol.	Open Int.
116	1.55	2.27	-	-	0.40	1.45	-	-
117	0.85	1.58	2.03	0.75	1.45	-	-	-
118	0.44	1.09	1.81	1.84	-	-	-	-
119	0.18	0.72	1.18	-	-	-	-	-

Est. vol. total: Calls 21,822 Puts 27,232. Previous day's open int.: Calls 245,198 Puts 351,261.

GERMANY

NOTIONAL GERMAN BOND FUTURES (LIEFF) DM250,000 100ths of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Sep	93.75	94.26	+0.51	94.36	93.44	90,032	160,978
Dec	92.85	93.65	+0.80	93.85	92.80	1,489	9,690

BUND FUTURES OPTIONS (LIEFF) DM250,000 points of 100%

	Strike	Aug	Settle	Change	High	Low	Est. vol.	Open Int.
9400	0.54	1.15	1.08	1.45	0.29	0.90	1.54	1.90
9450	0.28	0.88	0.85	1.21	0.53	1.13	1.81	2.18
9500	0.13	0.65	0.70	0.98	0.08	1.40	2.16	2.44

Est. vol. total: Calls 14,200 Puts 7,954. Previous day's open int.: Calls 28,522 Puts 30,102.

NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBLIEFF) DM250,000 100ths of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Sep	98.11	98.25	-	-	-	-	79

UK GILTS PRICES

	Yield	Rate	Price	Yield	Rate	Price	Yield	Rate	Price

Source: Reuters International

ITALY

NOTIONAL ITALIAN GOVT. BOND (STP) FUTURES

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Sep	102.70	103.05	-0.15	103.78	102.10	38,779	62,479
Dec	101.85	101.85	-0.15	-	-	0	110

ITALIAN GOVT. BOND (STP) FUTURES OPTIONS (LIEFF) DM250,000 100ths of 100%

	Strike	Aug	Settle	Change	High	Low	Est. vol.	Open Int.
10800	2.05	2.87	2.87	2.00	4.02	-	-	-
10900	1.80	2.60	2.60	2.25	4.21	-	-	-
11000	1.57	2.47	2.47	2.25	4.21	-	-	-

Est. vol. total: Calls 789 Puts 1984. Previous day's open int.: Calls 21,533 Puts 27,232.

SPAIN

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Sep	90.00	90.70	+0.70	90.89	89.80	50,670	104,168
Dec	90.00	90.00	-	-	-	-	314

UK

NOTIONAL UK GILT FUTURES (LIEFF) £250,000 100ths of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Sep	103.13	103.25	+0.08	104.00	102.47	52,906	113,027
Dec	102.31	102.31	-0.09	-	-	0	1,239

LONG TERM UK GILT FUTURES (LIEFF) £250,000 100ths of 100%

	Strike	Aug	Settle	Change	High	Low	Est. vol.	Open Int.
104	1.25	2.01	2.01	1.10	3.03	-	-	-
105	1.00	1.75	1.75	1.39	3.37	-	-	-
106	0.80	1.50	1.50	1.10	4.11	-	-	-

Est. vol. total: Calls 1796 Puts 2634. Previous day's open int.: Calls 34,477 Puts 50,027.

EURO

NOTIONAL EURO BOND FUTURES (MATF)

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Sep	84.24	85.02	+0.78	85.10	84.24	1,499	6,456
Dec	84.68	84.68	-0.78	-	-	-	-

US

NOTIONAL US TREASURY BOND FUTURES (CBT) \$100,000 100ths of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Sep	102.15	102.28	+0.10	102.28	102.14	433,884	581,225
Dec	101.05	101.05	-0.09	102.02	101.21	8,195	37,618
Mar	101.02	101.02	-	-	-	120	4,383

JAPAN

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIEFF) ¥100m 100ths of 100%

	Open	Settle	Change	High	Low	Est. vol.	Open Int.
Sep	108.72	-	-	108.72	108.62	1,989	0
Dec	108.72	-	-	108.72	108.72	324	0

* LIEFF contracts traded on AFEX. All Open Interest figures are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

	Price Index	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield

Source: FT Actuaries

FT-ACTUARIES FIXED INTEREST IND

COMPANY NEWS: UK

BARINGS B.V.

US\$ 150,000,000
Guaranteed Floating Rate Capital Notes due 2001
Payment of principal and interest guaranteed by
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In accordance with the provisions of the Notes, notice is hereby given that for the interest period from July 19, 1994 to January 19, 1995, the Notes will carry an interest rate of 5.4375% per annum.

The interest amount payable on the relevant interest payment date, January 19, 1995 against coupon No. 18 will be US\$ 27,792 per Note of US\$ 100,000.



Mediobanca International Limited

(Incorporated with limited liability in the Cayman Islands)
A member of the Mediobanca Banking Group

Notice to holders of Mediobanca International 4 per cent. Notes due 1999 convertible into ordinary shares of Alleanza Assicurazioni S.p.A. (the "Notes")

Pursuant to the notice published on May 6, 1994, notice is hereby given that the Subscription Rights to Alleanza Assicurazioni's shares may be exercised again as from July 20, 1994.

The world is its jigsaw

David Wighton on Medeva's strategy of adding value to acquisitions

When Medeva's share price halved after a year ago today, Mr Bernard Taylor, the acquisitive pharmaceuticals group's chairman, said it would take time to rebuild investor confidence. He was dead right.

Although the shares have regained some of the lost ground relative to the market, they have recovered by less than 10 per cent. Yet Medeva has done much to calm investors' concerns.

Following the warning it put its acquisition plans on hold and used the pause to strengthen its management and controls. Its 1993 figures emerged comfortably above the City's (lowered) expectations, showing strong underlying growth, and its founder, Mr Ian Gowrie-Smith, stepped down as managing director, a move welcomed by some in the City.

But still the share price failed to respond, suggesting there may be more fundamental concerns.

One is the general nervousness about the pharmaceuticals sector as a whole caused by pressure on prices around the world and in particular healthcare reforms in the US.

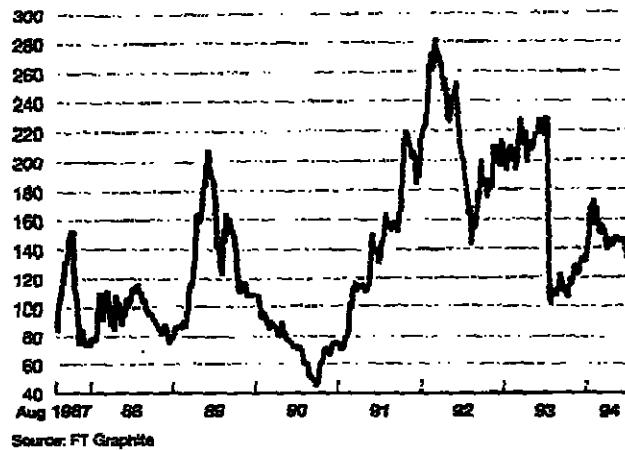
Relative to the depressed sector, Medeva's shares have performed rather better, perhaps reflecting the company's claim that it will be less hurt by the reforms than many of its rivals.

This is partly because many of its products are low-cost rivals to branded market leaders, and may benefit from switching by purchasers. In addition, Mr Bill Bogie, chief executive, believes that structural changes in the industry will throw up more opportunities for Medeva.

"The majors have to cut costs and are looking hard at

Medeva

Share price (pence)



Source: FT Graphite

their product lines and sales forces in order to concentrate on their strengths."

Mr Bogie predicts that they will sell on more of their smaller products, or at least put them through other companies' specialist sales forces.

When it comes to buying other people's established products, even the sceptics cannot knock Medeva's record. In almost all cases the deals have been successful, in some cases, spectacularly so.

In May 1991, Medeva spent \$77m on MD Pharmaceuticals, a manufacturer of specialised generic drugs which has grown so fast it has virtually paid for itself already.

This has been the most successful aspect of the strategy developed by Mr Gowrie-Smith and Mr Taylor. The idea was to build a pharmaceuticals company that could generate growth without heavy investment in research and development by acquiring products which were already established or in the final stages of development.

Medeva would add value partly by building an international sales force that could push products which were only established in local markets.

Pursuing this plan, it has built up a number of specialist sales forces around the world, notably in the US respiratory market. Now 220-strong, this is now picking up some promising products under licence, most recently a new hay fever treatment from Wellcome.

But there are clear gaps in its network. One close observer of the company says: "The profit warning caught Medeva in the middle of constructing its jigsaw and left it with some large holes. In some areas it has products but no sales force and in others a sales force but no products."

The slump in the share price makes further acquisitions much more difficult, and though it has a reasonably strong balance sheet, without a recovery in its rating its options are much more limited.

It has been suggested that Medeva is interested in Boots' pharmaceuticals division, but given that Medeva's market value of \$375m is about half the likely price tag of the Boots business, buying all or a large part of it would be a very big step.

Mr Bogie admits that further geographical expansion is on hold for now and that the focus is on building up the product portfolio. Although the group's sales are showing strong growth, most of its products have a limited life given their lack of patent protection. So the medicine cabinet will need some new blood before long.

Yet a key part of the Medeva strategy, buying products in late stage development, has yet to bring any results. Most disappointing has been the year's delay on the expected filing of the Hepatitis B vaccine acquired two years ago.

Although many City analysts are now positive about Medeva, some remain sceptical about the prospects for a small company in an industry where size and vertical integration are seen as increasingly vital.

One City observer says: "Medeva has still got a lot to prove. Maybe the strategy is sound and it will be possible to construct a significant pharmaceuticals group along these lines. But maybe there was a window of opportunity which Medeva is in danger of missing because of the share price slump."

Medeva has a number of attractive businesses, particularly in respiratory products and vaccines, but some analysts question whether the whole should be valued at more than the sum of the parts. If not, perhaps more value would be generated by selling them off.

Medeva founder shows preference for privacy

By David Wighton

Mr Ian Gowrie-Smith, who stepped down as managing director of Medeva in March, is not really cut out for public company life. Apart from anything else, when things go wrong it is just a bit too public for his taste.

He is a relaxed and outgoing Australian but also values his privacy and has not enjoyed the media attention he has received over the past year.

It has been a pretty mixed press. Even before last year's profits warning there was talk of a whispering campaign aimed at ousting him from the board. After the share price plunged it was suggested that only his removal would restore City confidence. And coverage of his move to a non-executive role centred on the size of his pay-off.

No whinger, he is nevertheless clearly hurt by his treatment at the hands of the press. He particularly resents the suggestion that he was responsible for the problems at the two US subsidiaries last year, pointing out that he was only briefly non-executive president of the American operations.

He also attacks the suggestion that the problems revealed a fundamental flaw in the group's hectic acquisition strategy. "Every acquisition has an element of gamble and it is the total result that determines success or failure."

Although Medeva is a long way from becoming "one of the most successful companies in British corporate history", as he predicted, he is proud of what he has achieved since founding the company in 1987.

Then called Medirace, Mr Gowrie-Smith brought it to the market with just the rights to a drug whose development has since been dropped. "The market was looking for Aids and cancer plays at the time and one thing I am good at is spotting opportunities and selling ideas."

Another thing he is good at is doing deals. "He may not have gone down that well with everyone in the City but you have to admit he pulled off some great acquisitions for Medeva," says one analyst.

He hopes to do more working for Medeva on a consultancy basis through his company Brightstone. Formed with long-time business partner Mr David Lees, who resigned as Medeva's finance director in March, the company is looking at a number of projects as well as searching for commercial property where he believes there are now many opportunities.

He is guaranteed consultancy fees from Medeva of almost \$1m over the next three years. But he has an incentive to produce the goods as a large part of his wealth is tied up in Medeva shares.

He admits to being much happier outside Medeva, which is inevitably developing the high company culture he hates. As a result, he says it is unlikely he will return to the public company scene; but then he pauses: "You can run quite a large property company without a large head office. The real question is whether being public is worth the loss of privacy."

NEWS DIGEST

Inspirations cuts losses to £970,000

Reduced pre-tax losses of £970,000 were announced by Inspirations, the vertically integrated package holiday group, for the six months to March 31. Losses last time amounted to £1.39m.

The group, which came to the USM in December, has increased its wholly owned retail travel agencies from five at the time of flotation to 42, and Mr Jim Harris, chairman, said that by next spring the group expected to own more than 100.

Turnover rose to £23.9m (£14.9m). Losses per share were at 2.8p (4p); an interim dividend of 0.55p is declared.

Lancs Enterprises rises 5% to £1.43m

Lancashire Enterprises, the local economic development company, made pre-tax profits of £1.43m in the half year to April 30, an increase of 5 per cent.

The interim dividend rises 8 pence to 1.35p (1.25p). The shares are traded on a matched bargain basis. Earnings per share were 5.4p (4.5p), after taking into account

share split and a 1-for-1 scrip issue in March.

Turnover rose 22 per cent to £7.55m (£6.17m), but profitability was affected by business development costs, including the launch of Partnership UK, which offers packages of employment and economic initiatives to local authorities, and a consultancy service for developing countries, particularly in eastern Europe.

Fitch sells London property for £3.8m

Fitch, the design company, has exchanged contracts for the sale of its Crinan Street property in London to Macmillan for £3.8m cash. The price reflects the value of the property in the accounts at December 31.

Directors said that £3.45m of the proceeds would be used to repay part of the £6m term loan from NatWest.

Elswick completes £400,000 acquisition

Elswick, the packaging, paper and printing concern, yesterday announced it had completed the acquisition of Joseph Steinfeld for £400,000 cash.

Steinfeld, a maker of woven labels and ancillary products for the clothing industry, incurred a deficit of £28,000 on

sales of £1.17m in the year to end-January. Shareholders' funds were £72,000.

Amicable Smaller net asset value dips

Amicable Smaller Enterprises Trust reported a net asset value of 137.84p as at June 30, a decline of 3.3 per cent since the trust's December year end.

The benchmark Hoare Govett Smaller Companies Index fell 4.5 per cent during the same period. Net revenue for the six months to end-June amounted to £805,000 (£856,000). The interim dividend is held at 1.7p, payable, after a £77,000 transfer from revenue reserves, from lower earnings of 1.51p (1.71p) reflecting increased capital after a £29m placing late last year.

Net assets decline at Fleming American

The Fleming American Investment Trust, which seeks capital growth through a portfolio of mainly listed US stocks, had a fully diluted net asset value of 232.3p per share as at June 30.

The figure compared with values of 328.4p at end-December and 285.3p at June 30 last year. Available revenue for the half year improved to £845,000

(£890,000), for earnings of 1.26p (0.89p) per share. The interim dividend, however, is cut from 0.85p to 0.4p.

BSG to acquire rest of Jessups

BSG International has sent out notices to non-assenting shareholders of Jessups, the vehicle distributor, to acquire the outstanding ordinary and preference shares.

BSG, which has split its operations into two core divisions, Brix International, the manufacturing side, and Brix Street Motors for vehicle distribution and servicing, made the recommended £20m offer for Jessups in May.

TDG sells stake in Portuguese offshoot

Transport Development Group is selling for £1.6m its 60 per cent stake in Transportes J Amal to members of the Amal family from whom it purchased the holding in 1989. Based in Estarreja, between Lisbon and Oporto, Amal is engaged in the transport of chemical products in Portugal and general international haulage.

Leslie Wise little changed at £1.24m

Leslie Wise Group, the clothing manufacturer and distributor, reported static profits of £1.24m pre-tax for the six months to May 31, against £1.23m.

The figure was struck after a £93,000 redundancy and trading loss at the garment manufacturing subsidiary and a £50,000 loss incurred in developing the new import division. Turnover for the Leicester-based company rose 18 per cent from £22.6m to £26.8m

mainly because of the increase by the specialist design companies.

Earnings per share were unchanged at 2.39p and the interim dividend is held at 1.75p.

Mr Neil Wise, chairman, said the second half had started well with turnover in June and July "significantly ahead" of last year. He added that the traditional trading pattern was moving towards a stronger second half.

Court Cavendish in £4.2m expansion

As part of its expansion programme, Court Cavendish Group, the nursing home operator which came to the market a year ago, has acquired three care homes in Cambridgeshire for £4.2m cash. Dr Chai Patel, executive chairman, said the purchases of the homes, with a total of 108 registered beds, gave a good start to the current acquisition programme which aims to add about 500 beds. Two of the homes have the

potential to add 35 more beds. The last financial statements of the two companies owning and operating the homes showed a combined operating profit of £395,028 and a pre-tax profit of £171,999. The three homes are now producing operating profits at an annualised rate of £875,000. In the year to April 30 1994 pre-tax profits of Court Cavendish rose from £194,000 to £3,08m before exceptional costs of £800,000.

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EniChem

Invitation to offer to purchase shares of Inca International SpA and the assets and the business PTA/PET related to the production of terephthalic acid and polyester resins.

EniChem, headquartered in Milano (Italy), Piazza della Repubblica n.16, with subscribed share capital of Lit. 1,495 billion, registered with the Milan Court, Companies' Registry no. 233555, intends to receive and evaluate offers from single legal entities for the acquisition of both 100% of the issued share capital of Inca International SpA and the assets and the business PTA/PET owned by EniChem Fibre SpA, a subsidiary of EniChem SpA. EniChem SpA is acting on behalf of EniChem Fibre SpA in relation to the assets and the business PTA/PET.

Inca International SpA, with principal offices in Pisticci (Metapoli) and facilities in Ottuno (Nuoro-Italy) and Pisticci, manufactures and sells bottle grade polymers based on PET, preforms and bottles predominantly used in the food packaging industry. The business PTA/PET with facilities located in Ottuno, manufactures and sells purified terephthalic acid (PTA) and PET resins.

Inca International SpA and the business PTA/PET achieved a total sales of approximately Lit. 278 billion in 1993. The total workforce was 337 employees at 31.12.1993. For the purpose of this transaction EniChem SpA has engaged the services of Banque Paribas S.A., "Paribas", to whom interested parties should direct all enquiries. The relevant persons at Paribas can be contacted at the following address:

Banque Paribas S.A. - Advisory Services
23, Wigmore Street - London W1G 7NR
Dr. Paul Neffler, Karin Hagedorn
Tel. (Int.) 071-3982000 Tel. (Int.) 01-42981234
Fax (Int.) 071-3952448 Fax (Int.) 01-42981331
London Paris

This information memorandum will be sent after a confidentiality agreement has been validly signed by an officer or legal representative of the company and returned to Paribas no later than August 12, 1994.

Together with the confidentiality agreement, interested parties must send financial statements for the last three years, a description of their activities and of the industrial and economic rationale for the investment.

Interested parties or agents of any kind must disclose the identity of the company they represent and also provide the aforesaid information on the company they represent. This represents an invitation to offer but does not constitute a public offer as art. 1336 of the Italian Civil Code, or a solicitation to public saving as art. 1/18 of Italian law no. 216/74, including all successive modifications and integrations thereto. Neither this invitation, nor the receipt of any offers by EniChem SpA will create, with respect to EniChem SpA, any obligation or commitment to sell to any bidder and, with respect to any bidder, any right to demand any performance whatsoever by EniChem SpA (including, without limitation, the payment of any intermediary or advisory fees or expenses). EniChem SpA also reserves the right to terminate at any time and without any reason or explanation whatever any and all discussions regarding the possible sale of Inca International SpA and the business PTA/PET, with absolutely no liability to any third party regardless of the status or stage of such discussions.

Whilst every reasonable effort has been made to ensure that this announcement accurately reflects the Italian text of the announcement appearing in Italian newspapers on July 19, 1994, in the event of any discrepancy the Italian text shall prevail. This advertisement and the sale procedure are subject to Italian law. In case of any controversy related to the above, the Court of Milan (Italy) shall have sole jurisdiction.

A\$92,000,000

State Bank of New South Wales Limited

Medium Term Notes due July 17, 1997
Series No: 2

Guaranteed by
The Government of the State of New South Wales

Notice is hereby given that for the interest period from July 19, 1994 to January 19, 1995 (184 days) the Notes will carry an interest rate of 5.5156% per annum. The interest payable on the relevant interest payment date, January 19, 1995 will be A\$297.25 per A\$100,000 Note, A\$1,488.28 per A\$500,000 Note and A\$14,882.80 per A\$500,000 Note.

By: The Chase Manhattan Bank, N.A.
London, Agent Bank
July 19, 1994

INTERNATIONAL DEPOSITORY RECEIPTS
REPRESENTING SHARES PAR VALUE \$2.50 COMMON STOCK
J.P. MORGAN & CO. INCORPORATED

A cash distribution of \$0.68 per Depositary share will be payable on or after the 22nd July 1994 upon presentation of Coupon No. 97 at:

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Interest Period 19th July 1994
19th January 1995
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CS First Boston
Agent

European Investment Bank

Italian Lira 500 Billion
Floating Rate Notes due July 1997

Notice to the Holders

Notice is hereby given that the Notes will carry an interest rate of 8% per annum for the period 18.07.1994 to 18.10.1994.

• IRL 102,222 per IRL 5,000,000 nominal
• IRL 1,022,222 per IRL 50,000,000 nominal

Luxembourg, July 21, 1994

Wellman pays £46m for three FKI offshoots

By Tim Burt

Wellman, the specialist engineering group, yesterday announced a large-scale expansion through the £46m acquisition of three businesses from FKI, the electrical engineering and components group.

The deal, funded partly by a £23m placing and open offer, will increase Wellman's market capitalisation from £12m to £45m, with turnover predicted to jump from £22.3m to about £130m.

Under the transaction, Wellman has agreed to pay FKI £30m on the placing and open offer - involving 88.9m new ordinary shares at 36p - while also issuing to FKI £10m of convertible preference shares and £5m of loan stock.

Existing shareholders will be offered new shares on a 5-for-4 basis, and 5-for-1 for preference shareholders. The issue has been underwritten by Singer & Friedlander.

Mr Geoffrey Iley, Wellman chairman, said the acquisition would transform the Midlands-based group from a loss-making

operation into one with the potential for profits and growth.

"This deal gives us critical mass. After some pretty poor results, we had to make the existing business viable and to expand."

It follows more than six months of talks with FKI, which has agreed to sell three subsidiary groups: Transport Equipment, comprising four businesses making equipment for the automotive, garage and car parking market; Data Recording Instruments; and Babcock Robey, the boiler and pressure vessel manufacturer.

The FKI companies made operating profits of £3.14m (£3.61m) on turnover of £91.8m (£91m) in the year to March 31 1994. Mr Iley said the figure had been dented by exceptional restructuring provisions of £2.07m which were "unlikely to recur in the future".

For the same period, Wellman reported pre-tax losses of £1.07m (£881,000 profits).

Wellman, however, said its performance had improved following the arrival last Novem-

ber of Mr Alan Baxter, a former FKI director, as chief executive.

Mr Baxter, who first approached FKI with the acquisition proposal, has been credited with cutting Wellman's costs by 16 per cent and winning record orders of £24m this year.

Mr Iley also announced a dividend for the current year of not less than 144p, pending approval of the deal.

For FKI, yesterday's deal marked another stage in its phased withdrawal from non-core businesses. Mr Eric Bowers, finance director, said the disposals would enable the group to concentrate on four main areas: automotive components, hardware, engineering, and materials handling.

"It was always our aim to get rid of peripheral businesses, and Wellman was the only group to make an offer for the lot," FKI plans to use the £30m payment to cut its £122m net borrowings, reducing gearing from 80 per cent to 44 per cent.

See People

Strong second quarter at WMI

By Paul Taylor

Waste Management International, the UK-listed arm of WMI Technologies of the US, reported strong second-quarter turnover and profit increases underpinned by volume growth and acquisitions.

Pre-tax profit for the three months to June 30 increased by 18 per cent to £43.6m (£37.1m) on revenues ahead 22 per cent to £286.9m (£234.9m). The quarterly results lifted pre-tax profit for the first half to £82.2m (£71.5m) on turnover up 19 per cent to £542.9m (£455.7m). Mr Nigel Wilson, finance director, said volume growth accounted for 14 percentage points of turnover growth in the second quarter, price increases generated 3 percentage points of the increase and acquisitions added 8 percentage points, while currency movements reduced growth by 2 percentage points.

Operating profits in the second quarter increased by 20 per cent from £39m to £48.7m and from £73.3m to £88.6m for the first half.

Mr Edwin Falkman, chief executive, said the group had made "good progress" during the second quarter with sustained growth in both revenue and profits.

"These results have been achieved through a balance of new projects, acquisitions, productivity gains and cost reductions," he said. "While pricing has remained weak, we have experienced volume growth in some markets. In Europe, our business performance has been mixed, in part reflecting the slow and uneven economic recovery in the region."

During the quarter the group spent £13m on 16 small acquisitions including purchases in Denmark, Finland, France, Germany, the Netherlands, Sweden and the UK.

Earnings per share increased by 9 per cent to 7.3p (6.7p) for the quarter and by 7 per cent to 13.6p (12.7p) for the half year, with higher minority interests partly offset by a reduced tax rate.

Ready for China to westernise

Tony Walker on Zeneca's moves to exploit the changing market

Mr David Barnes, chief executive of Zeneca, the agrochemicals and pharmaceuticals group, believes his company is putting the building blocks in place for what will be a long-term and lucrative involvement in China.

Speaking in Beijing recently after announcing plans to invest £100m (£66m) over the next five years in China, he said Zeneca's approach was to "treat each market as a domestic market and develop from within".

In seeking to position itself in China, Zeneca has opted for a two-pronged strategy that rests on production locally of agrochemicals such as paraquat, the active ingredient in the Gramoxone wide-application herbicide; and on the establishment of co-operative arrangements in the marketing and eventual manufacture of pharmaceuticals.

For a company of Zeneca's size and reach - 1993 turnover was \$6.7bn - its involvement in China is modest. Sales of its agrochemicals and pharmaceuticals totalled just \$44m last year. This represents a negligible share of regional sales, which account for about 15 per cent of Zeneca's global business. The company was floated in London and New York last year following its demerger from ICI.

But Mr Barnes is confident that, in spite of its limited presence in China, Zeneca is poised for fairly rapid expansion. Within the next few weeks it will announce an agreement with a Chinese joint venture

partner to produce paraquat, probably in the Yangtze delta within reach of its biggest markets.

The company is also fairly close to agreement on the establishment of a plant in the Shenzhen special economic zone adjacent to Hong Kong to produce specialty chemicals used in high value-added products such as dyes, printing ink and resins.

At the same time Zeneca is in the process of forming a joint venture consultancy to be known as the Sino-Pharm Development Consulting Company. Its partner in this venture is Sino-Pharm, the foreign trade corporation of the State Pharmaceutical Administration of China.

This strategic link with the state pharmaceutical marketing authority is aimed at opening China to a number of Zeneca's more sophisticated products, including Diprivan, its intravenous anaesthetic, Tenormin, a heart drug, and Nolvadex for the treatment of breast cancer.

The company hopes the consultancy will lead to manufacturing ventures as demand among affluent Chinese increases for "expensive" drugs.

Indeed, Western-style medicines have been growing at a faster pace than traditional Chinese medicines and account for 65 per cent of the total Chinese pharmaceutical market, which was worth about \$4bn in 1992.

Imports of pharmaceutical products account for about 10 per cent of the total and have



David Barnes: Zeneca poised for fairly rapid expansion in China

been achieving year-on-year growth in excess of 20 per cent for the past decade.

Zeneca executives say an important new area helping development in China is the fact that the Chinese now appear to be taking more seriously international concerns about infringements of intellectual property rights.

Dr David Jones, Asia Pacific representative for Zeneca agrochemicals, said that a "tightening up" on abuses of patents has "given us the confidence to bring in our best technology. Before we were not sure we could defend our technology".

Dr Jones said that in China these days there was "tremendous demand" for high quality herbicides. He expected sales of paraquat to "grow exponentially" as farmers sought more effective ways of reducing their workload.

The new Zeneca agrochemicals plant will produce initially 150 tonnes of paraquat, sufficient for the manufacture of 3,000 tonnes of Gramoxone - more than enough for China.

Zeneca pharmaceuticals expects that, in time, it will secure a "significant franchise" in the anti-cancer field in China. Among factors weighing in the company's calculations is the likelihood of an increase in various cancers, including colon and rectal cancers, as living standards rise.

Mr David Nelson, general manager of Zeneca Pharma International, said the aim was to "build a broad purpose pharmaceutical company".

The Sino-Pharm consultancy was merely a first step. Planned initial investment is \$20m.

Administration costs push ML Laboratories into red

By Daniel Green

ML Laboratories, one of the larger start-up healthcare companies quoted in London, saw a sharp rise in costs in the first half of 1994 as it moved towards marketing its first product, Icodial, a kidney failure treatment.

Administrative expenses rose to £1.4m in the six months to March 1994 from £894,742 a year earlier, pushing the company to a pre-tax loss of £953,047, compared with a profit of £55,088.

Sales fell from £467,242 to £385,551 because of deferred royalty receipts.

Pre-tax profit was also affected by a fall in investment income from £737,792 to £339,551 as the company ran down its cash pile to pay for the increased administrative costs. The company ended the

period with £11.3m (£14.8m) on deposit.

Losses per share were 0.7p, against earnings last time of 0.1p.

Icodial was launched in the UK last month. Mr Stuart Sim, finance director, said there would be no significant sales until the next financial year.

The company is in talks concerning a detailed marketing agreement with Fresenius, the German specialist in dialysis. In March, an interim arrangement gave Fresenius exclusive rights to sell Icodial in all markets apart from Japan.

ML Laboratories was floated on the Third Market in 1987, and moved to the USM in 1990.

COMMENT

ML Laboratories is either wildly overvalued or one of the most extraordinary bargains on the London Stock

Exchange. If its drug is a success, it should take a huge slice out of a £500m-a-year market and make its current market capitalisation of almost £300m look puny. Failure means a return to obscurity. The bull story is that ML Labs now has a product on the market, which means that two of the biggest risks - scientific and regulatory - have been overcome. The third risk is marketing, which is being addressed by the deal and continuing talks with Fresenius. Finally, can the entrepreneurs that launched a small company take the business into world markets? The details of the Fresenius deal should not only sort out any lingering doubts over marketing, but demonstrate whether top management has the skills to fight it out at the highest level.

3i shares get off to buoyant start

By Simon Davies

The flotation of 3i, one of the largest of this year's share offers, provided a pleasant surprise for subscribers yesterday when its shares jumped 20 1/2p to 282 1/2p on their first day of trading.

The shares had been marketed as a quality institutional shareholding rather than a staggering opportunity, and the public offer was only 1.1 times subscribed.

Analysts said that institutions, which had allocations scaled down, must have decided to buy more in the market, helping push the shares to a 7.5 per cent one

day gain. The institutional offer, valued at £283.6m, had been 1.7 times subscribed.

"I am pleasantly surprised," said Mr Hamish Buchan, director of equities at NatWest Securities. "But people should bear in mind that small companies have been weak since March 31, and they have not participated in the latest stock market rally."

The FT-SE Small Cap index has fallen 5.9 per cent since 3i's assets - investments in small companies - were valued on March 31. Analysts suggested 3i's assets would have fallen in value by a similar degree.

At the issue price, 3i shares were valued at a 13 per cent discount to their March asset value. The company offered 45 per cent of its shares (£281.6m in total), of which three quarters went to institutions and the remainder to the public.

The institutional portion of the offer was well supported, but only a small proportion of the 885,000 private shareholders who registered for a 3i share prospectus, actually applied for shares.

More than 27.7m shares changed hands yesterday, representing 10.5 per cent of the share offer, and 4.7 per cent of the company's total issued shares.

Shanks & McEwan chiefs get £761,000 pay-off

By Paul Taylor

Shanks & McEwan's former finance director and former chief executive, who both resigned from the Glasgow-based waste contractor unexpectedly, received a total of £761,000 in compensation payments.

The payments cover Mr Roger Hewitt, the chief executive who resigned in January when the group issued a profits warning, and Mr Alastair Fowler, the

finance director who resigned at the end of September. They are disclosed in the group's annual report.

The company, which last month cut its dividend by 43 per cent after announcing a plunge into the red with pre-tax losses of £6m for the year to March 26, declined to identify the size of the individual payments.

According to the annual report the compensation payment includes the estimated £10,000 value of a car.

Wm Low responds to request from Sainsbury

By Neil Buckley

Wm Low, the Scottish supermarket group which is the target of an agreed takeover bid by Tesco, the UK's second-largest supermarket chain, confirmed yesterday it had responded to a request for information from Tesco's bigger rival, J Sainsbury.

Tesco, which in a deal worth £200m is offering 225p in cash for each Wm Low ordinary share and 105p for each convertible preference share, is expected to issue its offer document this morning.

However, speculation continued to mount yesterday that Sainsbury was preparing to make a counter-bid for the retailer, which has 57 stores and 7 per cent of the Scottish grocery market.

Wm Low said it had responded to a list of questions from Sainsbury - and agreed the terms of a confidentiality letter - giving it the same information it had supplied to Tesco.

Archer to acquire rival agency

By Richard Lapper

Archer Group, the Lloyd's agency, is to acquire Cox Group, a rival agency.

Cox's principal operating subsidiary is the Cox Treasury & Finance agency.

The acquisition is one of a number of takeovers by bigger agents at the insurance market, which has been hard hit by five years of heavy losses.

Under the proposal, Archer, which has a market capitalisation of about £15m, will issue to Cox shareholders new shares equal to approximately 5 per cent of Archer's outstanding equity.

Subject to regulatory approval the deal will be completed during October.

Unipalm exceeds its forecast at flotation

By Graham Deller

Unipalm Group, the Cambridge-based computer communications company which was placed on the main market in March, yesterday reported pre-tax profits of £272,000 for the 12 months to April 30, exceeding the £240,000 forecast.

The outcome, which compared with profits of £605,000 last time, came on turnover ahead to £10.8m (£8.3m).

As well as its Unipalm interconnection software distribution activities, the company has high hopes for Pipex, a specialist in attaching commercial customers to the Internet - a self-regulating global computer network.

The distribution side reported profits of £716,000 pre-tax, partially offset by losses of

£444,000 at Pipex, reflecting substantial investment in "people, equipment and infrastructure" according to the company.

Mr Peter Dawe, managing director, said, however, that Pipex had had "a remarkable year". Turnover jumped from £381,000 to £1.43m. It had achieved a growth rate of 10 per cent a month with record orders in June. Public interest continued to grow, he said, with more than 250 organisations now using Internet through Pipex.

"We've shown that we've put the foundations in. Now we're building the upper storeys," he said.

Earnings per share emerged at 0.85p, down from 2.9p, but again beating the company's own estimate at flotation.

Brewin Dolphin tops £2.5m

By Simon Davies

Brewin Dolphin, the private client stockbroker, pleased the market with a 94 per cent increase in pre-tax profits from £1.32m to £2.55m for the 27 weeks to June 17.

The shares, which started trading on June 9, rose 5p to 149p, compared with the flotation price of 150p.

The profits growth was aided by a full six month contribution from its Bell Lawrie subsidiary, which had provided only two months input in 1993.

In addition, the previous figures were affected by a £230,000 provision, reflecting the cost of the cancellation of Taurus.

Total turnover increased by 46 per cent to £16.8m (£11.5m), helped by strong trading volumes during the first quarter of the year.

Mr John Hall, managing director, said the advisory and execution-only business had been adversely affected by the slowdown in the stock market in the second quarter of the year, but profits were still ahead of the previous year.

The company is paying a 1p interim dividend, which was half the rate it would have paid if it had been listed for the entire period.

It has undertaken, in the absence of unforeseen circumstances, to pay a final distribution of 4p.

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Application has been made to the London Stock Exchange for all of the New Ordinary Shares of Wellman plc to be admitted to the Official List. It is expected that dealings in the Existing Ordinary Shares and Existing Preference Shares will recommence, and dealings in the New Ordinary Shares will commence on Friday, 12th August, 1994.

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£			
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208,541.40	1,042,707	208,541.40	1,042,707
2,500,000.00	10,000,000	2,500,000.00	10,000,000

Listing particulars are available for collection during normal office hours, today and on 20th July, 1994 from the Company Announcements Office, the London Stock Exchange, London Stock Exchange Tower, Capel Court Entrance, off Bartholomew Lane, London EC2C 8EJ or on any weekday (Saturdays and public holidays excepted) up to and including 10th August, 1994 from:

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19th July, 1994

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Notice is hereby given that PT. Indofood Sukses Makmur ("Indofood") has effected an initial public offering ("IPO") of its ordinary shares of Rp. 1,000 per value each ("Indofood Shares") and that such IPO constitutes a Compulsory IPO as defined in Condition 4(B) of the terms and conditions (the "Conditions") of the U.S. \$500,000,000 Exchangeable Bonds due 1997 (the "Bonds") issued by Global Mark International Limited. The registration statement for the IPO was declared effective by Baden-Powderhaus Paus Modal ("BAPEPAM") on 9th June, 1994 and the IPO Listing Date, as defined in Condition 4(B), was 14th July, 1994. Accordingly, under current Indonesian law and regulations the Exchange Date as defined under Condition 6(A)(i) will be 9th February, 1995. On the Exchange Date Bondholders must mandatorily exchange all of the Bonds for fully paid Indofood Shares and/or such other property as may be available from time to time as described under Condition 7.

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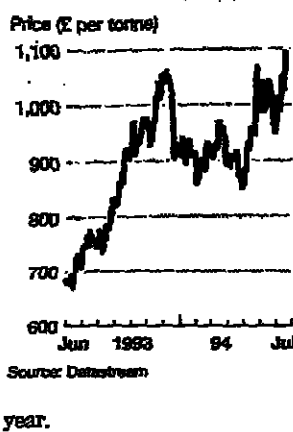
By Alison Maitland

Cocoa futures shot to their highest levels for six and a half years in London yesterday, taking over the baton from coffee on largely speculative buying fed by fears that next year's supply deficit could be worse than expected.

The London market took its cue from New York's performance on Friday, when futures surged to four-year highs on a burst of fund buying. Traders pointed to concern that the coming crop in the Ivory Coast, which produces a third of the world's cocoa output, could be hit by dry weather.

The International Cocoa Organisation suggested in February that the deficit, the fourth in a row, could rise to 200,000 tonnes in 1994-95 after a projected 110,000 tonnes this

Cocoa



year.

"Coffee has had an effect," said one analyst. "People have realised how explosive things can become when you're in a situation of structural deficit."

He pointed out, however,

that the likely size of the Ivory Coast crop would not be known for about six weeks.

Buying interest in New York and London was also fuelled by concern that labour unrest in the Nigerian oil industry could spread, and that Brazil, another large producer, might suffer a port strike.

The September position in London broke through the £1,100 mark to a day's peak of £1,112 a tonne but met profit-taking and closed £25 higher at £1,083. New York's September futures position added to Friday's advance in early trading but backed off to \$1,508 a tonne in afternoon trading, down \$14.

Coffee trading, meanwhile, had a thin day in London, consolidating last week's record gains. The second position closed \$3 lower at \$3.775 a tonne.

De Beers backs Canadian diamond rush

By Kenneth Gooding, Mining Correspondent

De Beers of South Africa yesterday put "a stamp of approval" on the diamond rush in Canada's Northwest Territories. It agreed to take shareholdings worth a total of C\$4m (£1.56m) in two junior exploration companies and to arrange for up to C\$500m of finance for a mine on the Yambala Lake prospect in the Lac de Gras area, centre of the diamond rush, if it proved viable.

"Clearly this is going to be one of the premier diamond-producing areas of the world before the end of the century," said Mr Nick Fuller, analyst at

Credit Lyonnais Laing.

Mr Charles MacDonald, president of Tanqueray Resources, which owns 50 per cent of the Yambala Lake project, said De Beers made the first approach and he believed that it wanted to move ahead as fast as possible. "We are all going to explore with the best group in the [diamond] industry," he said.

GL's Mr Fuller suggested that, although two other major companies, Broken Hill Proprietary of Australia and the RTZ Corporation of the UK, had about a one-year start, "De Beers wants to show them that it remains king of the diamond business". The two Canadian companies - Tanqueray and

Mill City Gold - had extracted good terms and a tight timetable from the South African group.

De Beers has 45 days to recheck in South Africa results from exploration at Yambala Lake. If all is well it will submit for C\$2m of shares in Tanqueray at C\$4.40 each and C\$2m of shares in Mill City at C\$2.30 each. De Beers must evaluate the five "pipes" so far discovered by September 1996, complete a feasibility study by the end of 1997, and, if it decides to bring a mine into production, will procure up to C\$500m of financing to earn a 51 per cent interest in the project area.

MARKET REPORT

Producer sales cap palladium price surge

Sales of PALLADIUM believed to be from Russia - the biggest producer - capped prices after a rise to fresh five-year highs yesterday afternoon.

Palladium was fixed at

\$147.30 a troy ounce, up \$1.05, helping its sister metal PLATINUM to a three-month high of \$416.75. Dealers said the early price surge reflected investment fund buying on the New

York futures markets where the rally in the platinum group metals began on Friday.

GOLD SILVER silver benefited from the trend. Compiled from Reuters

Economists urge US farm policy overhaul

By Laurie Morse in Chicago

Important aspects of US farm policy need a substantial overhaul if the US is to preserve its competitive position in world agricultural trade, say Mr Alan Barkman and Mr Mark Drabent, economists at the Federal Reserve Bank of Kansas City.

In a paper prepared for the bank's quarterly journal, *Economic Review*, the authors note that US farm export programmes are heavily skewed toward bulk commodities, where global trade is declining,

and ignore fast-growing trade in processed foods. Furthermore, entrenched export subsidy and credit programmes undermine countries with the fastest-growing demand for farm products.

After an intelligent discussion of changing trends in the global trade in farm exports, the authors set out four rather surprising suggestions for US policy reform. They say the time for discussion of these alternatives is now, as policymakers plan farm legislation for the next five years, as part

of the 1995 US Farm Bill.

Their paper suggests that rather than continue to devote substantial energy to wrestling down worldwide subsidies, the US should focus on stimulating demand in emerging markets for farm goods. "US agriculture has much to gain from economic and trade policies that boost economic growth in regions like Asia and Latin America," it says.

The authors argue that US domestic farm programmes depress world bulk grain prices while reducing US farmers' competitiveness in world markets. "Eliminating commodity programmes may encourage US farmers to shift to products with higher profit margins and brighter market prospects," they say.

On a closely related issue, the article concludes that programmes that encourage US farmers to set aside acreage, and thus lower production, throttles the highly-competitive US grain handling system and put the US at a worldwide trading disadvantage. Finally, the authors question

whether the \$5bn spent on US export credits in recent years has been flowing to the markets with the best long-term trading possibilities. The credits, they say, are often directed toward political, rather than trade, alliances.

A New Agricultural Policy for a New World Market, in *The Economic Review*, second quarter, 1994, Vol. 79 No. 2. No charge from the Federal Reserve Bank of Kansas City, 225 Grand Boulevard, Kansas City, Missouri, 64199-0001.

UK's overheated fields yield a crop of problems

Early ripening is reducing harvests and hitting the quality of autumn-sown barley

For those farmers with a tendency towards hay fever and asthma the high pollen count was not the only frustration to result from the recent heatwave. The long hot days also brought forward the grain harvest with some crops of autumn-sown barley having ripeness forced upon them rather than acquiring it gently in the dull conditions we usually seem to get in July.

It is not so much the earliness itself that frustrates - in many ways it is a good thing to get some of the demanding harvest work out of the way. It is the fact that because of premature ripening most of the crops are far advanced and of mediocre quality and weight and therefore of low value.

Admittedly the number of samples submitted to merchants is relatively low at this stage and come from the light, sandy land that is most susceptible to this kind of problem. But reports suggest that grain size is generally small - "like needles" one merchant said the other day as he admitted that from one exceptionally poor lorry load he had had to remove 38 per cent of screenings, the small grains that fall through a screen designed to remove non-viable material.

Clearly this also implies low yields of the fields so far combined have apparently produced above 2.5 tonnes an acre

FARMER'S VIEWPOINT



By David Richardson

(6.25 tonnes a hectare). Production at this level is unlikely to leave a profit, even on farms with the lowest costs. Those of us with rather heavier, more moisture-retentive land, can only hope that our crops, when they are ready for cutting in a few days, will produce better results. But it would be unrealistic to suppose that the early fields had not set at least an approximate pattern for the rest.

There are two main types of barley, grown for distinctly different markets. One is for animal feed and here the farmers' objective is to produce the maximum yield and a high protein or nitrogen content. Such barley attracts a low price but can be profitably provided production per acre is high enough. The variety is chosen accordingly.

The second type is for malting into beer, for which spe-

cific varieties have also been developed. Here the objective is for a much lower nitrogen content and thus this implies smaller applications of fertiliser. It normally means accepting a lighter yield. The price paid to the farmer should, in theory and usually in practice, compensate him for the lower yield.

Ever-increasing emphasis on the need for better marketing of farm commodities together with the urge to add value, persuaded rather more farmers than usual to plant malting barley last autumn. Many took advantage of merchants' offers to sell it forward on contract at a fixed premium above the price of feed barley. One estimate suggests that up to 40 per cent of the malting barley grown for harvesting this year has been sold in this way. Last year the figure was between 25 and 30 per cent.

There are two potential difficulties arising from this otherwise healthy move. The first is that because of the weather-related problems with quality, referred to above, a substantial proportion of the barley sold on contract may be of low quality to qualify for the full premium prices written into the contracts. Premiums over feed barley are usually between £20 and £30 a

tonne, depending on variety, but for that the merchants specify a range of quality standards. They are entitled to cut the price or even reject the grain if those standards are not achieved.

The second problem is that the price of feed barley, at £25 to £28 a tonne, is £10 to £13 per tonne higher at present than was expected when those contracts were agreed. Given that malting contracts are based on feed prices the merchants will have little choice but to pay the extra and to pass it on to the brewers. Cynical malting barley growers, as they deliver their crops over the next few weeks, will be watching very carefully to ensure any deductions for lack of quality are genuine and do not reflect the buoyancy of the feed market.

The rise in the feed barley price and indeed for forward wheat sales (for the wheat harvest will not begin in earnest for another month) can be attributed to two main factors. Planting conditions across northern Europe last autumn were appallingly wet and the early spring was not much better. It had long been anticipated that yields would be down this harvest and the probability of this has stimulated the price.

In addition the weakness of sterling against other European Union currencies has tri-

gered two small devaluations of the green pound since the beginning of July. These have resulted in compensatory increases in UK guaranteed prices amounting to about 3 per cent. And although open market prices for grain are well above support levels where they apply it all helps to create a firm tone in the market.

Currency movements within the EU have been mainly favourable to UK arable farmers for the past two years, but they can, of course, go the other way. In order to "lock in" an apparently attractive currency position a few large farmers have taken out currency options against forward changes in values. In most changes, so far, these have turned out to be expensive and in the event unnecessary insurance against events that have not happened.

Nevertheless the big banks continue to offer such services and the Morgan Grenfell subsidiary, Record Treasury Management, now offers a hedging facility for EU green rates.

A few major players in the food industry may well use them, but unlike their American cousins, few UK farmers are ready for the culture change such deals involve. As this year appears to have proved to them, once again, the weather is the final arbiter.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Antiquated Metal Trading)

ALUMINIUM, 99.7 PURITY (£ per tonne)

Close 1514.40 1530.20

Previous 1529.30 1544.40

High/Low 1513/1512 1547/1525

AM Official 1513.5-5 1533.4

Karb close 1529.8-5

Open Int. 280,944

25,604

ALUMINIUM ALLOY (£ per tonne)

Close 1510.20 1535.45

Previous 1519.25 1535.40

High/Low 1518/1510 1545

AM Official 1510.15 1535.40

Karb close 1535.45

Open Int. 2,730

785

LEAD (£ per tonne)

Close 592.5-3.5

Previous 591.5-3.5

High/Low 592.0-3.0

AM Official 592.3-3.0

Karb close 592.5-3.0

Open Int. 42,848

8,342

NICKEL, 99.95 (£ per tonne)

Close 6395-40 6430-40

Previous 6370-40 6460-50

High/Low 6380-40 6510/6410

AM Official 6380-40

Karb close 6420-30

Open Int. 60,827

11,070

TIN (£ per tonne)

Close 5435-45 5505-15

Previous 5440-50 5505-10

High/Low 5440/5430 5505/5500

AM Official 5430-40 5500-05

Karb close 5520-30

Open Int. 18,680

4,132

ZINC, special high grade (£ per tonne)

Close 983-4 1007-8

Previous 985.5-4.5 1008-9

High/Low 984-4 1007.5-4.0

AM Official 984-4 1007.5-4.0

Karb close 1010-11

Open Int. 100,773

9,002

COPPER, grade A (£ per tonne)

Close 2435.5-4.5 2484-5

Previous 2470.5-1.5 2483.5-4.0

High/Low 2461/2451 2485/2483

AM Official 2462-3

Karb close 2472-3

Open Int. 320,183

30,542

LME ALUMINUM 99.7% min. 15944

LME CLOSING 2/5 RATE

Sept. 1592.3 1 month 1591.2 3 month 1587.7 6 month 1583.3

HIGH GRADE COPPER (COMEX)

Close 2435.5-4.5 2484-5

Previous 2470.5-1.5 2483.5-4.0

High/Low 2461/2451 2485/2483

AM Official 2462-3

Karb close 2472-3

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HIGH GRADE COPPER (COMEX)

Close 2435.5-4.5 2484-5

Previous 2470.5-1.5 2483.5-4.0

High/Low 2461/2451 2485/2483

AM Official 2462-3

Karb close 2472-3

Open Int. 320,183

30,542

LME ALUMINUM 99.7% min. 15944

LME CLOSING 2/5 RATE

Sept. 1592.3 1 month 1591.2 3 month 1587.7 6 month 1583.3

HIGH GRADE COPPER (COMEX)

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Open Int. 320,183

30,542

INVESTMENT TRUSTS - Cont.

NOTE:

INVESTMENT TRUSTS - Cont.

Trust Name	Price	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618	617	616	615	614	613	612	611	610	609	608	607	606	605	604	603	602	601	600	599	598	597	596
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AUTHORISED UNIT TRUSTS

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A & C Unit Trust Mgmt Ltd (00051F)									
Investment Trust, 5 Avenue Road, Singapore 119074									
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A & C Unit Trust Mgmt Ltd (00051F)									
Investment Trust, 5 Avenue Road, Singapore 119074									
A & C Unit Trust Mgmt Ltd (00051F)									

Company Name		Share Price		Dividend		Yield		Market Cap		Sector	
Metropolitan Unit Trust (MUT) (1990)		1.15		0.05		4.3%		£1.2m		Real Estate	
Metropolitan Unit Trust (MUT) (1990)		1.15		0.05		4.3%		£1.2m		Real Estate	
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Metropolitan Unit Trust (MUT) (1990)		1.15		0.05		4.3%		£1.2m		Real Estate	
Metropolitan Unit Trust (MUT) (1990)		1.15									

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INSURANCES

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Schneider Unit Trusts Ltd (4000)		T.A.I. Fund Managers Ltd (2200)	
General Fund	100.00	General Fund	100.00
Income Fund	100.00	Income Fund	100.00
Capital Fund	100.00	Capital Fund	100.00
Real Estate Fund	100.00	Real Estate Fund	100.00
Commodity Fund	100.00	Commodity Fund	100.00
Energy Fund	100.00	Energy Fund	100.00
Health Care Fund	100.00	Health Care Fund	100.00
Technology Fund	100.00	Technology Fund	100.00
Global Fund	100.00	Global Fund	100.00
International Fund	100.00	International Fund	100.00
Emerging Markets Fund	100.00	Emerging Markets Fund	100.00
Fixed Income Fund	100.00	Fixed Income Fund	100.00
Money Market Fund	100.00	Money Market Fund	100.00
Short-Term Fund	100.00	Short-Term Fund	100.00
Long-Term Fund	100.00	Long-Term Fund	100.00
High-Yield Fund	100.00	High-Yield Fund	100.00
Convertible Fund	100.00	Convertible Fund	100.00
Asset Manager Ltd (2200)		Asset Manager Ltd (2200)	
General Fund	100.00	General Fund	100.00
Income Fund	100.00	Income Fund	100.00
Capital Fund	100.00	Capital Fund	100.00
Real Estate Fund	100.00	Real Estate Fund	100.00
Commodity Fund	100.00	Commodity Fund	100.00
Energy Fund	100.00	Energy Fund	100.00
Health Care Fund	100.00	Health Care Fund	100.00
Technology Fund	100.00	Technology Fund	100.00
Global Fund	100.00	Global Fund	100.00
International Fund	100.00	International Fund	100.00
Emerging Markets Fund	100.00	Emerging Markets Fund	100.00
Fixed Income Fund	100.00	Fixed Income Fund	100.00
Money Market Fund	100.00	Money Market Fund	100.00
Short-Term Fund	100.00	Short-Term Fund	100.00
Long-Term Fund	100.00	Long-Term Fund	100.00
High-Yield Fund	100.00	High-Yield Fund	100.00
Convertible Fund	100.00	Convertible Fund	100.00

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

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FT MANAGED FUNDS SERVICE

SOLINGHAM KEMP-SCOTT MANAGED FUNDS				FOREIGN & COLONIAL INVESTING MARKETS LTD				S.G. WATSON ASSET MANAGEMENT LTD				HSSC MPT LUXEMBOURG SA				"WINTERTHUR" FUND MGMT CO (LUX) SA				EUROPE 1992				JARDINE FLEMING UNIT TRUSTS LTD - CONT.				PULINER EMBASSY FUNDS LTD			
Fund Name	Unit Price	% Chg	YTD %	Fund Name	Unit Price	% Chg	YTD %	Fund Name	Unit Price	% Chg	YTD %	Fund Name	Unit Price	% Chg	YTD %	Fund Name	Unit Price	% Chg	YTD %	Fund Name	Unit Price	% Chg	YTD %	Fund Name	Unit Price	% Chg	YTD %	Fund Name	Unit Price	% Chg	YTD %
Springer-Kemp-Scott Mgt Fund	10.25	0.00	0.00	Foreign & Colonial Growth Fund	10.25	0.00	0.00	S.G. Watson Asset Mgmt Fund	10.25	0.00	0.00	HSSC MPT Luxembourg SA	10.25	0.00	0.00	"Wintertthur" Fund Mgmt Co (Lux) SA	10.25	0.00	0.00	Europe 1992	10.25	0.00	0.00	Jardine Fleming Unit Trusts Ltd - Cont.	10.25	0.00	0.00	Puliner Embassy Funds Ltd	10.25	0.00	0.00

MANAGED FUNDS NOTES
Prices are in pence unless otherwise stated. All prices are subject to change without notice. The value of investments can fall as well as rise. Investors should consider the risks involved in investing in these funds. The funds are managed by the respective fund managers. The funds are not insured by the Financial Markets Foundation for England. The funds are not insured by the Financial Markets Foundation for England.

MARKETS REPORT

Cabinet row hits lira

The fall-out from the cabinet squabble in Italy dominated foreign exchanges yesterday as the lira fell to a 1994 low, writes Philip Gault.

The first serious schism within the two-month old government drove the Italian currency to a low of L1,003.90 against the D-Mark before recovering to finish slightly firmer in London at L1,002.28 on Friday.

Traders were concerned whether what appeared to be Mr Berlusconi's first serious policy error might not spill over into problems in management of the economy.

Elsewhere, the dollar had a quiet day. Dealers said the US currency was in a consolidation phase after its recent sharp fall. It was firmer against the yen, closing in London at Y98.3550 from Y97.9050, but lost ground against the D-Mark to finish at DM1.5428 from DM1.5558.

The D-Mark was stronger on the back of political uncertainty in both Italy and France, where the communications minister resigned over the weekend in connection with corruption charges.

Sterling had an uneventful day, with the market ignoring the June public sector borrowing figures which were below expectations.

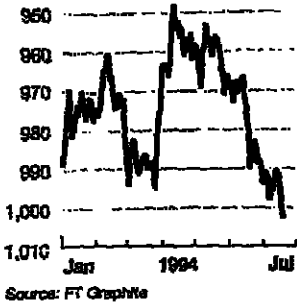
Consistent with the recent pattern, it was firmer against the dollar, closing at \$1.5644 from \$1.5598 on Friday, but weaker against the D-Mark, finishing at DM2.4135 from DM2.4248.

Analysts are currently playing down "apocalyptic" scenarios for the lira, but none rule out the currency testing the historic low of L1,010 against the D-Mark, touched in December 1993. The next important development will be the parliamentary hearings into the constitutional crisis of the contested decree.

Mr Giorgio Radaelli, senior economist at Lehman Brothers in London, said the dispute between Mr Berlusconi and his coalition allies was the first open rift since they entered government. He said he doubted, however, whether there was a "great risk" in the next few weeks of a break-up

Lira

Against the DM (Lira per DM)



Source: FT Graphix

Pound in New York

Jul 18 - 1.5644 - 1.5644 - 1.5644

5 Jul - 1.5620 - 1.5620 - 1.5620

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contract trading 12,418 lots.

Mr Neil MacKinnon, chief economist at Citibank in London noted that Italian financial markets were used to political uncertainty, adding that lira weakness "tends to be quite short-lived."

He said the lira was also suffering from the current environment of general D-Mark strength.

The main influence on the dollar was the comments of Mr Fred Bergsten, the Washington economist with close ties to the Clinton administration. A long time dollar bear, Mr Bergsten told the Wall St Journal that "the yen is close to its peak, and its probably going to turn around."

He said it could go to Y90 against the dollar, but would not stay there long if it did.

Mr MacKinnon said the markets saw Mr Bergsten "rightly or wrongly, as the mouthpiece of the US Treasury." Mr Bergsten said the markets would soon realise that Japan's trade surplus was going to shrink, and this would allow the dollar to stabilise at Y100-Y110.

The market is now looking ahead to the Humphrey-Hawkins testimony of Mr Alan Greenspan, the Fed chairman, tomorrow. But Mr MacKinnon said any references to the dollar were likely to be too bland to be useful.

Overnight money traded between 4 and 6 per cent in the UK as the Bank of England provided \$750m assistance to the money market after forecasting a shortage of \$900m.

In Germany, call money rates firmed slightly to 4.90 per cent from 4.80/85 per cent. Analysts said they still anticipate a further decline in the repo rate this week.

Volumes were low and price movements small in the interest rate futures market. The December eurosterling contract closed at 83.89, while the eurodollar contract finished at 95.13.

OTHER CURRENCIES

Jul 18 - 1.5644 - 1.5644 - 1.5644

5 Jul - 1.5620 - 1.5620 - 1.5620

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POUND SPOT FORWARD AGAINST THE POUND

Jul 18	Closing mid-point	Change on day	Bid/ask spread	Day's high/low	One month	Three months	One year	Bank of England		
				Rate	%PA	Rate	%PA	Rate	%PA	Eng. Index
Europe										
Austria	(Sch)	16.8896	-0.0093	819 - 972	17.1161 16.9632	16.8896	0.3	16.8892	0.2	115.4
Belgium	(Bfr)	49.7620	-0.2535	196 - 044	52.1510 43.6232	49.7387	-0.6	49.8922	-0.5	89.877
Denmark	(DKr)	4.9326	-0.0081	877 - 974	9.5433 6.0767	9.4296	-0.9	9.5951	-0.7	82.1
Finland	(Fmk)	7.3954	-0.004	259 - 255	7.3853					120.0
France	(FFr)	16.8896	-0.0093	788 - 913	21.8765 8.2733	21.889	-0.6	8.2764	0.6	82.304
Germany	(DM)	2.6134	-0.0113	125 - 146	2.6103 2.4291	2.6124	-0.1	2.412	0.2	2.3222
Greece	(Dr)	364.941	-1.902	724 - 321	369.328 354.242					116.0
Ireland	(Ir)	0.0416	-0.0007	123 - 148	0.0713 1.0271	0.0744	-0.4	0.0154	-0.4	164.0
Italy	(Li)	2.4182	-0.0102	973 - 974	2.4225 1.5618	2.4237	-0.2	2.4267	-0.3	2.489
Netherlands	(Fl)	1.7084	-0.0033	156 - 044	5.1515 43.6462	4.7887	-0.6	49.822	-0.5	48.647
Norway	(Nkr)	10.5735	-0.0038	684 - 766	12.6283 12.5490	10.5725	-0.3	10.581	-0.4	10.597
Portugal	(Esc)	248.610	-0.876	576 - 543	251.211 24.712	250.54	-8.3	253.72	-7.5	204.189
Spain	(Pta)	169.635	-0.001	1410 - 1410	220.843 2.943	200	-3.0	200.65	-2.7	204.189
Sweden	(SKr)	1.0222	-0.0111	245 - 262	1.0237 1.9554	1.2343	-2.3	12.1003	-2.6	12.3235
Switzerland	(Sfr)	2.0306	-0.0093	346 - 368	2.0293 2.0321	2.0426	-0.9	2.0313	0.8	2.0077
UK	(S)									79.0
USA		1.2649	-0.0037	643 - 654	1.2719 1.2679	1.268	-1.0	1.2677	-0.3	1.2695
SDR		0.939642								
Americas										
Argentina	(Peso)	1.5822	-0.0072	624 - 633	1.5840 1.5663					
Brazil	(R)	1.4580	-0.0084	561 - 599	1.4828 1.4581					
Canada	(Cs)	2.1350	-0.0051	541 - 553	2.1363 2.1512	2.1506	-0.9	2.1964	-1.3	85.0
Malaysia	(New Pen)	5.3227	-0.0028	178 - 278	5.3270 5.2148					
UK	(S)	1.5644	-0.0058	640 - 647	1.5656 1.5617	1.5637	-0.5	1.5628	0.4	1.5597
Asia/Pacific/Middle East/Africa										
Australia	(A\$)	2.1355	-0.0039	634 - 367	2.1337 2.1315	2.1355	0.0	2.1308	-0.2	2.1548
Hong Kong	(HK\$)	12.0845	-0.0146	810 - 877	13.2533 12.0655	12.0208	0.4	12.0793	0.2	12.0686
Japan	(Y)	168.982	-1.2677	788 - 895	49.192 4.9349					
India	(Rs)	168.982	-1.2677	788 - 895	153.680 152.521	153.467	3.2	152.707	3.0	148.822
Malaysia	(MS)	0.0579	-0.0041	562 - 596	0.0609 0.0718					
New Zealand	(NZ\$)	2.8149	-0.0124	132 - 116	2.8177 2.6263	2.8191	-2.0	2.8002	-2.0	2.8002
South Africa	(Rand)	1.4377	-0.0157	788 - 787	1.4377 1.4377					
Saudi Arabia	(Riyal)	0.0617	-0.0216	655 - 626	0.0615 0.5973					
South Korea	(S\$)	2.3623	-0.0049	613 - 632	2.3642 2.3594					
S Africa (Cont.)	(R)	3.7280	-0.0117	626 - 648	3.7338 3.7122					
Singapore (S\$)	(S\$)	2.3648	-0.0085	570 - 520	2.3617 2.3555					
South Korea	(Won)	1262.86	-0.44	230 - 32	1264.62 1250.85					
Taiwan	(T\$)	41.5887	-0.6620	433 - 410	41.6101 41.4337					

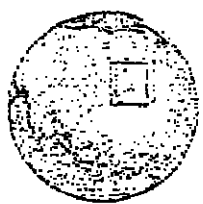
4 pm close July 18

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Continued on next page

September 1993



In the throes of transformation

Social upheaval is rare in Japan. When it takes place, it does so with dramatic suddenness, as in today's radical changes. William Dawkins reports

Japan does not evolve gradually like other leading industrialised countries. Instead, it goes through decades of stability, punctuated by upheavals such as the one happening now.

Evidence has piled up over the past year that Japan is starting to redefine every aspect of its society. Old maxims, such as stability, consensus, the subordination of the collective will to export-led economic growth, have all been thrown into question.

A new blueprint is beginning to emerge. It is only partly drawn and will take years to complete. But the first blurred sketch shows an unpredictable Japan, in which open debate rivals consensus, individual initiative has begun to challenge collective will, and the race for growth is giving way to the challenge of adjusting to a slowly expanding mature economy.

Optimists liken the present phase to the start of the Meiji Restoration, Japan's high speed transformation at the end of the 19th century from a medieval to an industrialised society; or to the creation of Japan's economic miracle in the decades after the second world war.

Realists point out, however, that for the moment there is no restoration. Japan wavers tantalisingly between the partial destruction of the old order and the construction of a new one. For every few steps forward, it takes a step back.

"Change has been slower and more disorganised than many foreign observers think, but it is real. It is also much stronger than many foreign observers think," says Mr Kiyooki Kikuchi, a former

ambassador to the United Nations.

Nowhere has the transformation been more visible than in politics. Formerly stable Japan has produced four prime ministers over the past year. The monolithic dominance of the Liberal Democratic Party has given way to a shifting web of alliances between 13 parties, in which policies are announced one day to be revoked the next.

The breakdown of the old political order began a year ago today, when the electorate voted out the LDP after 38 unbroken years in power.

An LDP government returned to office three weeks ago, but this time under a prime minister from the Social-Democratic party, Mr Tomiichi Murayama, the LDP's traditional enemy since 1955. It is a partial step back to the old system, but also an illustration of how severely the old structure has been fractured.

While a humiliated LDP spent 11 months in opposition, two unstable coalition governments led by a younger generation of reform-minded politicians managed to achieve a long-delayed redesign of the political system and set curbs on political funding.

The new rules, to be completed with the redrawing of electoral boundaries this autumn, will make Japanese politicians compete for seats more on the quality of their policy ideas, and less on their newly curtailed ability to hand out favours.

The defeat and subsequent weakening of the LDP, which has seen its numbers dwindle through a trickle of defections over the past year, was a terminal blow to the so-called iron triangle of business, poli-

tics and the bureaucracy. "Business no longer knows where to go for favours and the bureaucrats feel there is no power centre," says Mr Kikuchi.

Elements of the old system, in which important decisions were made in secret by LDP factions, are of course still intact. The pact between the LDP and SDF that brought the odd couple to office shows that governments can still be made by the backroom collusion of the LDP's heyday. The LDP and the SDF remain the first and second largest parties respectively.

Yet the framework in which they operate has shifted irreversibly. Japan has already moved from one-party rule to a system of three competing political groups; the rump of the LDP, centre-right reformist parties like the Japan Renewal Party and the Komeito clean government party; plus a left wing loosely grouped around the Socialists.

Political upheaval may be linked to Japan's longest economic downturn since the second world war, another challenge to the old power structure. There are signs of recovery, but the recession has overturned several traditional assumptions about Japan's economic strength.

Unlike previous recessions, this one was at least partly caused by internal structural weaknesses, rather than just by external blows, like a rise in oil prices. That is why the recession has been a long one, likely to be followed by weak growth, rather than the shallow dips followed by vigorous recoveries shown in previous cycles.

The recession has uncovered heavy overcapacity in the for-



Tokyo Disneyland visitors: the present phase resembles Japan's crash industrialisation a century ago. Picture: Glyn Gelin

mer engines of economic advance, the car and electronics industries. These will take years to correct and provide a drag on growth in the future. No industry is an obvious candidate to power the economy in the next decade, as cars and electronics did in the 1980s. The government is backing multi-media as one possibility, but the international competition is intense.

There has also been a heavy external shock. In the past few weeks, the yen has risen for the first time through the psychological barrier of ¥100 to the dollar, threatening to choke the fragile recovery by further squeezing the yen value of export earnings. Business leaders are running even more scared than they did in previous rounds of yen appreci-

ation. The yen's ability to defy gravity means that even as Japan comes out of recession, there will be no let-up in the pressure on industry to restructure. The outward shift of production capacity to cheaper locations in south-east Asia is accelerating, as a result, raising fears that Japan may deplete its industrial base.

Japan's formerly all powerful financial system has also been forced to face up to structural weaknesses. This downturn has left banks straining under a mountain of bad debts, inherited from the unsustainable rise in asset prices of the late 1980s.

In previous recessions, banks could be counted on to tide their customers through hard times and provide the funds

needed to finance recovery. But this time, banks are letting shaky corporate customers go under in record numbers, rather than allow bad loans to pile up faster. It will take several years for them to reduce bad debts to manageable levels, during which time the banking system's ability to fund a recovery may well be weakened.

Economic upsets have gone hand in hand with social change. Japan's social contract, in which companies guarantee a job for life in return for life-time loyalty, is up for renegotiation. Prominent standard bearers of life-time employment, such as NTT, Nippon Steel and Toshiba, have had to cut their workforces. Others, including Sony and Honda, have replaced

traditional seniority-based pay with merit awards and encouraged staff to compete for jobs.

One reason why Japanese industry still carries so much overcapacity is that it has restructured to nothing like the extent of its US and European competitors.

Yet the process has been radical enough to unnerve millions of salarymen who used to think of the company as the staple of their personal lives and have learned to value corporate loyalty above personal initiative. The tradition of life-time employment is still intact, but no longer guaranteed.

Social change has stretched to the behaviour of Japan's formerly passive consumers, who are flocking in record numbers to increasingly popular discount retail stores.

This is partly a symptom of the pressure on wages. But many analysts believe it also marks an underlying change in attitude. Consumers are starting to realise that they can no longer tolerate the fact that Japan's consumer prices are still on average 80 per cent above the OECD average.

Consumers' new taste for a bargain has wide repercussions. It challenges the existence of the multi-layered distribution system, the main feature in Japan's high prices and a factor in the orderliness of its social structure.

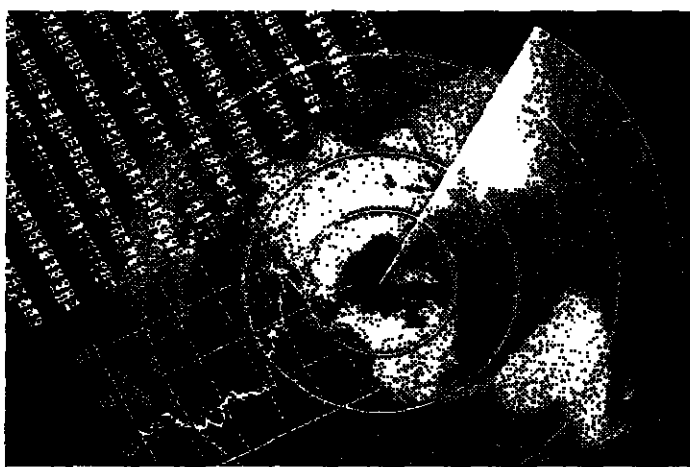
Deregulation, given fresh emphasis by governments over the past year, has also played a part. The practical impact has been slight so far, but deregulation is popular and widely

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JAPAN 2

The economy stirs, but expect no miracles, writes William Dawkins

Solidity and maturity

Japan's consumers, industrial companies and banks are starting to adjust to the fact that they can expect nothing like the high growth of the 1980s during the second half of this decade.

The change down in economic gear is one of the many factors forcing Japan to challenge the values that used to lie at the heart of its economic power, like the dominance of producers' interests over consumers, the lifetime employment system and the tight-knit organisation of business into keiretsu, or corporate families.

Japan may have to learn to switch to a mature consumer-led economy rather than the fast growing industry-led exporter it used to be until the downturn hit, just after the turn of the decade.

A faltering increase in private demand has just started to arouse the economy from its longest and deepest recession in the post-war era. It may only walk rather than run into its next recovery phase, but few doubt that the worst is over.

Most economists in Tokyo believe that gross domestic product will recover from stagnation last year to growth between less than 1 per cent and 2 per cent this year, settling to something like one or two points below the 1980 average annual growth rate of 4.5

per cent. The main evidence for an upturn includes a 3.9 per cent annualised increase in gdp in the first quarter of this year, the best performance for three years. It could fall back again in the current quarter for seasonal reasons, but the underlying forces at work are clear, even if fragile.

Government spending packages have fed through to strong rises in housing starts, private consumption and imports in the first three months of this year. Imports, spurred by the yen's sharp rise, increased by just over 16

per cent. The gradual breakdown of Japan's retail and distribution cartels, incidentally one of the ways in which economic change is producing an adjustment in the structure of society.

Industry has started to reduce its vast inventories of unsold goods, but industrial production has yet to show a clear pickup. Output showed an apparently encouraging rise in the first three months of this year by comparison with the last quarter of 1993. Yet the monthly figures have switched direction every month since

man of the Nikkeiren employers' federation, believe the yen's sharp rise could nip the recovery in the bud, just as a jump in the yen did when a phantom upturn appeared this time last year. Most economists, however, believe industry has cut its costs so sharply during the recession that the latest rise in the Japanese currency will merely slow, rather than choke, recovery.

Japan's chaotic political scene, with four governments in the past year, has also slowed the recovery by hampering ministers' ability to make difficult economic policy decisions.

Successive governments have, to their credit, delivered three public spending packages worth ¥45,000bn over the past 18 months. But badly needed income tax cuts and further public spending have been delayed or blocked.

Japan's shaky governments have also done well to produce three deregulation packages over the past year, marking modest steps in the attempt to reduce Japanese costs and prices in line with interna-

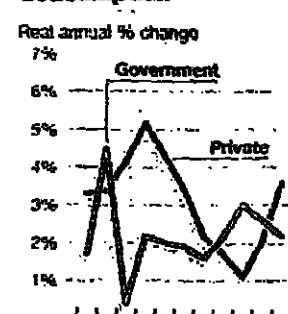
tional competitors. But the political upheavals have delayed and possibly weakened the implementation of the most recent deregulation package, published last month. This is not all bad, since many economists believe deregulation should in any case be slow, to avoid creating too much deflation at a time when wholesale prices are already falling.

Looking beyond the immediate problems, the later stages of the recovery will be constrained by at least two structural problems - surplus industrial capacity and the weakness of the financial system.

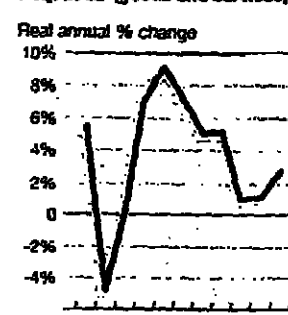
Surplus capacity will force the industries that used to be the engines of Japan's economy to hold down wage increases, new employment and investment in the mature domestic market.

The car industry alone, for example, still has surplus production capacity of 2m vehicles, equivalent to the entire car market of Britain or France. It is not alone. The electronics, shipbuilding, engi-

Consumption

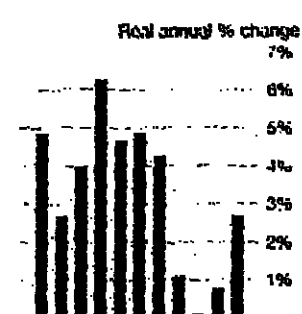


Exports (goods and services)

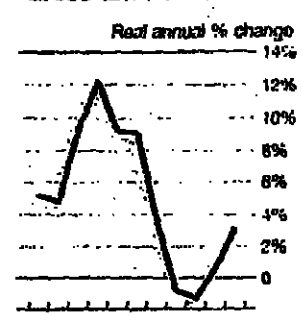


Source: Datamonitor, OECD

GDP



Gross fixed investment



Forecast for 1994 & 1995

rather than collapse, say Japanese managers.

According to a recent survey by the Ministry of International Trade and Industry, companies will increase capital investment by 1.1 per cent in the year to next March, yet most of this new cash will go to cheap production sites in China and south-east Asia, which represent Japan's fastest growing export markets and investment destinations.

The financial system, meanwhile, is making slow headway in running down the burden of bad debts, inherited from the boom in lending on the back of over-valued property during the sharp rise in asset values of the late 1980s. Since then, commercial property prices have fallen by up to 50 per cent and have shown no clear sign yet of recovery.

It is feared that the experience has made banks so cautious over extending new loans that the economic recovery may prove hard to finance. This is born out by the weak performance of the benchmark indicator of money supply, M2 plus certificates of deposit, which turned the corner early last year, from a three year decline, but grew at a mere 1.7 per cent in the year to May, well below the 5 per cent annual growth which many economists believe is needed to fund a revival.

Industry has started to reduce its inventories of unsold goods

per cent in the year to last month, the clearest evidence that Japan's huge and politically troublesome trade surplus might now be on the turn. Private consumption rose by 5.8 per cent in the first quarter. There has been a consumer spending spree in discount stores, often loaded with cheap imported goods, and helped by

last August. Recovery is being slowed in its early stages by the yen's recent historic break through ¥100 to the dollar, an unwelcome new blow to the international competitiveness of Japan's manufacturing industry. Some business leaders, such as Mr Takeshi Nagano, chair-

A storm is brewing over imports of rice, writes Emiko Terazono

Some things are sacred

Mr Koji Takada, a 44 year old rice farmer in Kitakami, northern Japan, describes the future of Japan's farming as "grim". Although more than four generations of his family have been farmers he doubts whether his children will keep up the tradition.

He is one of the many Japanese rice farmers who have lost faith in the government's policy, due to last year's decision to open the rice market to imports, and to the confusion following the shortage of domestic rice earlier in the year.

Japan will open its rice market to foreign imports next year under the Uruguay Round of trade liberalisation talks. For the first six years, imports will have limited access. In the seventh year the market is expected to be fully open. Meanwhile, the rice shortage caused by the exceptionally cold weather last summer triggered a rice shortage row, and the government was forced to import emergency supplies from the US, China, Australia and Thailand.

The row over the opening of the market heightened the sense of sanctity of home-grown rice, the cultivation and the harvesting of which remain at the roots of Japanese traditions and rituals.

In ancient Japan, rice was not only food to fill the stomach but a symbol of deities, or a means of connecting humans to the

gods. The emperor, still considered by many as a living god, today plants rice seedlings in his private rice paddy behind the imperial walls.

Later, rice was used as taxes and traded like a currency, and would become a sign of wealth. In medieval Japan, rice and rice cultivation was turned into a cultural symbol by which Japanese would differentiate themselves from the Chinese, Koreans, and westerners, an ideology broadened and popularised by the military government during World War II.

Behind the symbolism, however, the opening of the rice market has highlighted the rigidly controlled farming system, which has become inefficient and outdated. Mr Takada's woes are shared with other farmers, who are concerned with the country's agricultural future.

The protection of the farmers, whose votes are highly valued by politicians, has come in the form of farm subsidies. In order to keep afloat the farming sector, which has an annual output of about

¥10,000bn, the government pumps in about ¥6,000bn. The figure rises to around ¥9,000bn if subsidies from local government are included.

Others who have benefited from the system have been the 12,000 bureaucrats in the Food Agency, which have nothing to do all year except during the harvest.

In ancient Japan, rice was a divine symbol and was later used as taxes and traded like currency

when they inspect rice. Around 350,000 people are employed by the numerous farm cooperatives, which work as an intermediary between the farmers and the government, selling agro chemicals and farming machinery to the farmers and collecting and distributing the government's payments for rice.

But aside from Japanese consumers, who have had to pay around seven times the international price for rice, the farm-

ing community has paid the penalty for such distortions. Dependent on subsidies and the state-run distribution system, they have lost control over their livelihood. Farmers cannot buy or sell their land freely due to regulations on farmland transactions, while the state controls every aspect of rice farming from the planting to the retail sales. "The position of rice growers is little more than that of serfs working on state-owned farms," says Mr Taro Yamada, a political analyst advocating the farm reforms.

And in spite of the government's subsidies, rice production is not profitable. Mr Takada says while his income does not differ from office workers of the same age, after paying for farming machinery, fertilisers and pesticides, sold at higher than market prices by the farming cooperatives, "there isn't much left to spend".

The result has been a sharp fall in the country's farming population, which has declined from 3.7m in 1985 to 3.1m in 1990. The figure is likely to fall further to

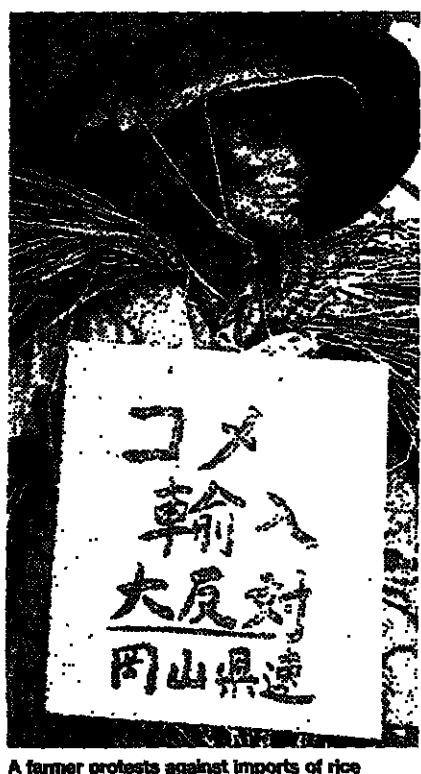
around 2.1m by 2000. At the same time the farming population is ageing rapidly and, according to the ministry of agriculture, the number of farmers under 60 in 1990 will be halved in 2000.

Not that the government is unaware of the problems. In 1992, the agriculture ministry released a report on food policy, agriculture and rural life. It called for consolidation of smaller farms for a more efficient system.

Reform advocates are calling for a more radical reform, including bringing in the market mechanism by deregulating state control, and freely allowing those who want to enter the sector.

However, the government has been slow to respond to the need for agricultural deregulation and reform. The new Murayama administration merely followed its predecessors by agreeing earlier this month to the ritual annual increase of subsidies to the farmers.

Although Japan still has six years before the official opening of the rice market, with no apparent gainers except consumers from full fledged farm reform, politicians, farmers and agricultural bureaucrats may continue to drag their feet. In the end, like so many other issues, Japan may once again need the help of outside pressure to rationalise the dwindling farming sector.

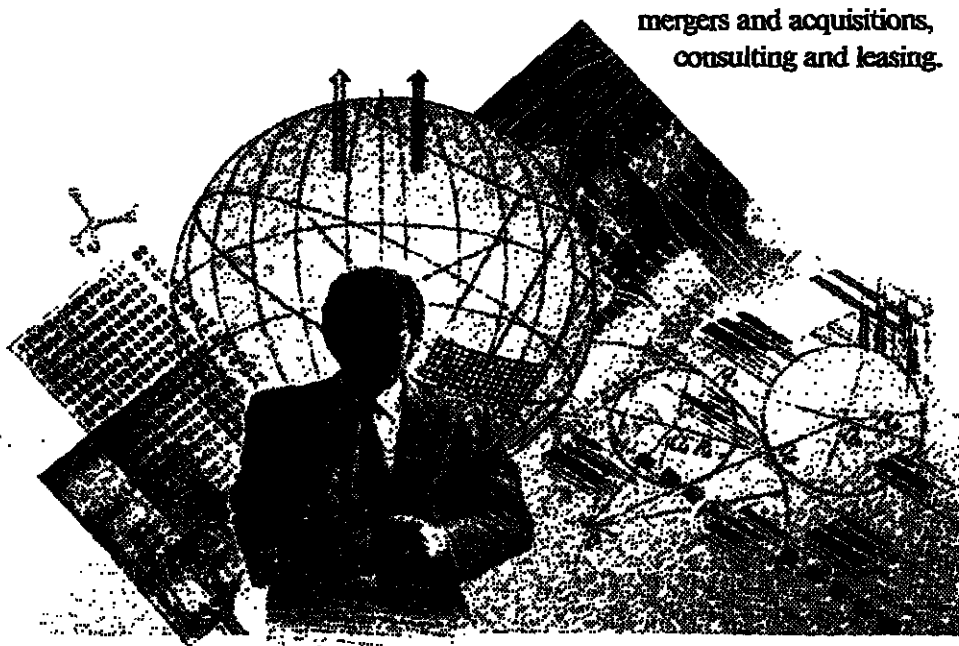


A farmer protests against imports of rice

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NYK LINE

Industry is worried about its future, writes Andrew Fisher

It's tough at the top

To the rest of the world, Japan still seems an unstoppable economic leviathan which dominates many industrial markets, has a huge trade surplus - especially with the protesting US - and cultivates a work ethic superior to that of most competing countries.

But while its products remain successful and its people hard-working and disciplined, the picture is very different when seen from inside. Japan's high costs and strong currency, which last month forced the dollar below ¥100, have put hurdles in the way of its continued industrial progress.

Industrialists and economists talk constantly about the potential "hollowing out" of Japanese industry as it opens more operations in lower-cost countries in North America, Europe and South-east Asia. Big companies are striving to make their employees more flexible and productive by restructuring operations to cut costs and increase efficiency without sacrificing lifetime employment and destroying loyalty and motivation.

It is proving tough. After investing heavily to meet demand during the expanding "bubble" economy of the late

1980s, many companies have too much capacity.

"After the bubble, corporations faced a huge cost burden as they had expanded too much," says Haruo Shimada, economics professor at Kelo University. They have cut down on recruiting, leaving a trail of disaffected graduates, and eased back sharply on pay. Many are also trying to move away from the tradition of pay by seniority rather than merit and ensure that able managers move faster up the ladder.

Making workers redundant to cut costs is virtually unheard of in consensus-minded Japan. Not only is it culturally unacceptable, and legally awkward, but some companies fear they may be short of labour again once the economy picks up. Even so, workforces are being reduced as companies do not replace those who leave.

"Japanese management is facing a huge challenge," says Mr Masaya Miyoshi, director general of the Kaidanren, the

Japanese business federation. "The system needs overhauling." Some companies are taking tough action within the constraints of the Japanese system. In cars and computers, Honda and Fujitsu are shaking up their management struc-



Honda's Nobuhiko Kawamoto trying to move with the times

tures, looking at every aspect of their operations and trying to inject a more entrepreneurial spirit into them.

"It's not enough just to cut the workforce," says Toru Kat-

surada, a director of Fujitsu, which made a loss in 1992 but is now back in profit. "We need to review every business we are in." The Nissan car company has even taken the bold step of closing its plant at Zama to concentrate output in newer facilities. But the closure is being spread over two years and the 2,000 production workers shifted to other sites; no-one is being laid off.

Nissan's plan is to cut costs by ¥200bn (\$2bn) up to 1996, much of it by sharing more components between different models. Honda, Toyota and Mazda are also rationalising the way they build cars. About 50 per cent of the parts used in Honda's newest Accord family car are shared with the previous model or with others in the range; previously, it was only 10 per cent.

This amounts to a big saving. But Honda is also trying to revitalise its management by moving aside people who do not progress fast enough and introducing performance-based

pay. This is vital, says Mr Nobuhiko Kawamoto, Honda's president, if it is to move with the times. "We are trying to cope with the problem of the decline in Japan's competitiveness in world markets due to the high yen and political issues." The latter mainly concern US attempts to persuade the Japanese industry to buy more parts there.

As Mr Kawamoto points out, many of the steps being taken by companies like Honda go against the traditions built up in growth-conscious Japan after World War Two. Until the post-bubble recession, companies prized their keen and productive employees who in turn valued their lifetime connections with an employer who gave them a sense of belonging and security.

But in these harsher times, companies need to become more flexible and their operations more transparent. "The traditional Japanese system is now in direct conflict with the competitiveness-ori-



Nissan's Kyushu plant: gradual moves to cut \$2bn of costs

ented system of the western world," adds Mr Kawamoto. Younger Japanese are more in tune with western ways of living and working. So the actions of companies like Honda have to take their aspirations and abilities into account.

Therefore, says Mr Kawamoto, "we have to survive through this period of harsh competition and yet maintain the good features of the Japanese tradition. We want to give the next generation something to hope for." In the opinion of Mr Shintaro Hori, managing director of the Bain consultancy in Japan, this virtually means two com-

panies in one. "Honda needs a young, motivated, fast track, performance-oriented company and another more middle-aged, balanced, judgment-oriented company. If it can keep this balance, then it has a great advantage."

In the case of such globally-minded industries as cars and computers, this may work. Mr Matthew Ruddick, car analyst at stockbroker James Capel Pacific in Tokyo, believes the cost-cutting activities of the car companies will benefit profits considerably. "There is good reason to be optimistic about the automotive industry."

Even if the market improves, though, there will still be a

surplus of jobs and capacity. But reinvigorating Japanese industry as a whole, without destroying the social and cultural values which helped it become successful, is far more challenging. For one thing, much of the Japanese economy is highly regulated which keeps up costs and hinders competition; moves to change this are proceeding slowly. Also, notes Mr Shimada, "we have a lot of inefficient sectors". He reckons only a third of manufacturing industry is competitive in world terms, while large areas like construction, transport and distribution have high costs and low productivity.

He adds, ominously: "If companies and the government don't take drastic reforming action, we'll be pulled into a declining scenario year after year." More operations will be carried out abroad and Japan's steadily rising standard of living and ability to create jobs will be threatened further. Not all see the future in such stark terms. But even the Kaidanren's Mr Miyoshi believes the pessimists among Japanese industry are currently in the majority - "by hunch, I would say 60 per cent pessimists and 40 per cent optimists. I'm right in the middle."

Social upheaval

Continued from page 1

accepted. Consumers' interests are starting to assert themselves in a society traditionally dominated by producers' interests.

It is no surprise that, with all these changes churning away at home, Japan is redefining its place in the international community. The first step has been to start renegotiating its traditional dependence on US leadership.

This is a belated response to the end of the cold war, which has reduced Japan's role as a passive US-sponsored bulwark against communism in Asia.

Evidence of this is Japan's newly assertive stance on economic relations with the US, as shown by its continued opposition to US demands for numerical targets for increases in imports.

When Mr Morihiro Hosokawa met US President Bill Clinton in February, it was the first time that a Japanese prime minister chose to come

away from a US summit without an agreement, rather than make concessions. Yet Japan's dependence on US military protection is as strong as ever and may increase with North Korea's nuclear ambitions.

While Japan rethinks its US relationship, it has - again belatedly - started to make overtures to its increasingly important Asian neighbours.

Mr Hosokawa's unprecedentedly explicit apology for Japan's wartime record helped, for a while, to reduce Japan's isolation in Asia. Unfortunately, the gesture was ruined later when a justice minister in the next government denied that a notorious wartime atrocity had ever occurred.

Japan's search for a credible voice of its own will be as sensitive and difficult as the rest of the changes sweeping through the country. Japan is changing from a passive economic machine to something different, but as yet incompletely defined.

When The Body Shop wanted to sell in Japan shampoo made from bananas, it took one-and-a-half years to get the necessary approvals. "They never thought of bananas as an ingredient," says Mrs Mitsu Kimata, head of the UK company's operation in Japan, about the attitude of Ministry of Health and Welfare officials.

Water melons are also not on the approved list of cosmetic ingredients. So bringing in a sun-care product made from this fruit is also taking time. "I hope we can get it next summer, but it was developed last year." Not surprisingly, she adds, "Japan is one of the most restrictive countries that Body Shop operates in."

The complaint is echoed by a host of foreign, and many local, companies in Japan. Despite government initiatives to promote deregulation - the latest was announced last month - there is scepticism about the pace of change, especially now the government has changed yet again. "It'll take light years," says Mr Peter Woods, president of Rover Japan, about the prospects for progress.

A recent survey of foreign companies in Japan, of which there are more than 3,000, showed that 58 per cent thought it was more difficult to operate there than in other advanced countries. The extreme cost of land

Andrew Fisher studies the potential for more de-regulation

Yes, we have no bananas

and rents was the main reason, followed by high prices of goods - generally twice as high as in other industrialised countries - and the number of government regulations. However, the survey by LBS, a firm which provides services to non-Japanese companies, did find that 38 per cent of respondents felt it had become easier to do business in Japan.

But the progress of deregulation was well down the list of reasons for this. Companies felt instead that more goodwill was now being shown to outsiders, while they had developed a better understanding of Japanese business customs. Either way, said Mr Homare Takenaka, a senior managing director at IBM Japan (which helped set up LBS), in the survey's foreword, "the Japanese market as seen from foreign eyes is still fraught with many obstacles in the form of regulations and puzzling business practices."

The latest government package promised action on 279 regulations. These cover housing and land, tele-

communications and financial markets, as well as the acceptance of foreign inspection data and standards for more imports. There are more than 10,000 regulations inhibiting an estimated 40 per cent of the economy. Former prime minister Mr Morihiro Hosokawa last year launched a five-year campaign to sweep away this forest of rules after previous governments had failed to reduce them.

Japan's bureaucratic system served the country well as the economy recovered and grew after World War Two. "The Japanese system has been built on the philosophy that this is a country poor in resources but rich in people," says Mr Takenaka. But growth has changed all that. "Now, we are at an economic stage where Japan is not poor. It should be more open to foreign companies and people, more free. But the historical heritage remains as a barrier."

One area where Japan has been most heavily criticised is car imports,

still only accounting for 5 per cent of the total market. For years, foreign makes were hindered by high tariffs and a raft of regulations. The tariffs have gone and it is much easier to sell foreign cars; the streets of Tokyo are full of them. Helped by the strong yen, car imports have soared this year.

But there are still big hindrances, says Mr Woods. "The Japanese are rather consistent, stubborn and rather networked." The Ministry of Transport is slow to change its rules - especially on inspection - and has to be persuaded, even if the pressure is coming from high political level: some politicians, pursuing special interests, obstruct attempts to free up the system.

Also, there are informal rules which are hard for outsiders to comprehend. "Guidelines are operated which are almost not written. There is a tremendous level of power in the hands of the bureaucrats." This they will not give up lightly. Mr Nobuhiko Kawamoto, president of the Honda

car company, notes: "Everybody talks of deregulation - but if it is implemented full-scale, there will be a lot of lay-offs among bureaucrats and civil servants."

The high level of regulation keeps prices high. Japanese workers at Honda making the same cars as its workers in the US earn more at the current yen rate. "Yet the standards of living enjoyed by the Japanese workers are far below those enjoyed by the Americans."

The experience of The Body Shop shows how regulations keep up costs. Currently, it can sell less than 70 per cent of the full range of products in Japan. Mrs Kimata hopes to raise this to 85 per cent next year. If ingredients - such as exotic fruits or oils - are not on the ministry's approved list for cosmetics, there are delays due to testing (for which the company pays).

She hopes deregulation will ease the way for Body Shop products and make them cheaper. But many Japanese companies would benefit, too. "Deregulation will create new businesses," believes Mr Masaya Miyoshi, director general of the Kaidanren, the business federation. "Companies, citizens and customers will be encouraged to think about their own responsibilities. Finally, we will get away from the umbrella government."

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JAPAN 4

As the heat and humidity soar in the sweltering Japanese summer, electricity companies have to shift gear to keep up with demand. Air-conditioners, refrigerators and juice extractors make life more comfortable for those who can afford them, but put a huge extra burden on generating capacity.

With energy use climbing steadily and no natural fuel resources of its own, Japan has long put its faith in nuclear power, a policy reinforced by the oil crises of the 1970s. More recently, the government and the nuclear industry have gone to great lengths to win the population over to the idea of yet more energy from uranium and plutonium.

Already accounting for 30 per cent of electricity generation - the country has 46 nuclear power plants with seven more on the way - the scale of the nuclear commitment is set to rise further.

Yet several factors have combined to slow down the nuclear energy drive. Concern over nuclear proliferation, especially after North Korea's reluctance to allow international inspection, has focused foreign attention on Japan's technological prowess in the nuclear field, despite protestations from Tokyo that it has no intention of using plutonium to make weapons.

Japan's growing environmental consciousness is also playing a role. So is the fact that uranium, used in the present light water reactors, looks likely to be in plentiful supply for many years. Thus the government has just decided to hold back on further development of the fast breeder reactor (FBR) programme, based on plutonium, and on building a second nuclear fuel reprocessing plant.

This plant, on which a decision will not now be taken until 2010, would follow one being built some 700km north-east of Tokyo in an area of lush fields and low hills near the town of Masawa at a cost of ¥1,250bn (\$12.5bn). Chattering school children and attentive adults tour the visitors' centre at the Rokkasho reprocessing and waste disposal plant near the Pacific coast.

In the smartly designed centre, the workings of the facility are demonstrated - from the treatment of spent fuel and the enrichment of uranium to the storage of radioactive waste. A smiling hostess points to a display of yellow drums in which



Tokyo protest over imports of French-reprocessed plutonium. Reuters

■ NUCLEAR POWER

Thirty percent and rising

low-level waste from power stations will be buried in concrete; some 3m drums will eventually be stored.

Although the Japanese people broadly accept the case for nuclear energy, they have reservations. The government says 70 per cent believe in its necessity but only 40 per cent think it is safe. Also, said a recent report by a nuclear advisory sub-committee of the Ministry of International Trade and Industry (MITI), "the public has a low degree of confidence in information on nuclear power generation provided by the government and electric utilities".

The 7.5m sq m Rokkasho site, partly completed and partly a hive of round-the-clock construction activity with tall cranes piercing the skyline, is central to the government's aim of providing security of

energy supply for resource-poor Japan. The enrichment facility, in which the concentration of heat-generating U-235 is increased, is building up its operations, while the first huge pit for storing the drums is now in use.

Reprocessing will not start until around 2002, also a slight delay. But Rokkasho is already a symbol of both the nuclear industry's ambitions and the concern in and outside Japan over how far it intends to go down the nuclear road. Despite constant reassurances from Tokyo, suspicions about the possibility that the country may one day build nuclear weapons persist.

It certainly has the skills to do so. Even the previous prime minister, Mr Tsutomu Hata, whose minority government collapsed last month, admitted

as much. Yet anyone who has visited the Peace Museum at Hiroshima with its horrific exhibits from August 1945 when Japan became the only country to suffer atomic bombing, will understand its reluctance to enter the nuclear arms race. "We have to show foreign countries how we are keeping to peaceful uses of nuclear power," says Mr Teruaki Masumoto, head of communications at Tokyo Electric.

The overseas concern, especially in the US, has arisen mainly over Japan's nuclear fuel cycle policy - with uranium reused after spent fuel is reprocessed - which would result in the production of plutonium, which could be used to make nuclear weapons. "The idea that surplus plutonium could be used to make a bomb is very controversial," admits Mr Haruhiko Takeuchi, a general manager at Rokkasho. "Japan has no intention of doing that; the point is to use the nuclear fuel resources in the most practical and economic way." Officials at MITI echo this. But while stressing the absence of military ambitions, they argue that Japan's nuclear policy is vital to secure long-term electricity supply in a country which is a voracious consumer of energy.

Japan used to be heavily dependent on imported oil, which accounted for around 70 per cent of its needs. Today, this is down to some 30 per cent. At Tokyo Electric, the share of electricity produced from nuclear power units, of which it has 15, is set to rise to 43 per cent in 2003 from 37 per cent last year.

The company appears unworried about the FBR delay. The ¥600bn Monju prototype facility has now begun operations after technical problems. But commercial use of fast breeders has been postponed by 10 years to 2030, with the planned demonstration plant (to be built by industry) put off from the late 1990s to early in the next century.

The slowdown in policy will lessen the supply of plutonium and should thus abate concern over non-peaceful uses. But Tokyo Electric's Mr Masumoto thinks the FBR will eventually go ahead. "No-one knows if a third oil shock will come. We have to prepare something as insurance." So while the FBR programme is on hold, R&D work will carry on at full stretch.

Andrew Fisher

Finance houses start to pick up the pieces, writes Gerard Baker

The bubble that burst

The last few years have revealed a simple but unpalatable truth about Japan's financial institutions. Though they rank as the largest companies of their sector in the world by almost any measure, their strength was never commensurate with their size.

Banks and brokers have been brought low by the bursting of the bubble that inflated them in the late 1980s. Both look set for a long period of reconstruction.

The banks boast that the last year was a watershed in the struggle to discharge the bad loans of the bubble period. In their annual reports for the year ended March 31 in May, most of the major city banks, trust banks, and long-term credit banks declared that the worst of the problems were over. All 21 banks announced sharp falls in profits as a result of heavy provisioning for bad debts.

As Mr Kensuke Uchida, director for corporate planning at Sumitomo Bank puts it: "Our policy of provisioning for bad debts means that this year will mark the end of the adjustment process."

The main piece of evidence to support the claim is that total disclosed nonperforming loans actually declined from September 1993, implying that last autumn banks scaled the peak of the bad debt mountain. But more important is the fact that the banks' loan loss reserves surged as the companies finally grasped the bad loans nettle.

Declared non-performing loans now stand at a total of ¥12.5 trillion, with specific loan loss reserves at ¥3 trillion. Banks have thus now made bad loan provisions for 24 per cent of the total of disclosed nonperforming loans, up from 16 per cent last year. This is a significant step in the clearing up process and if it holds, the whole story would be an encouraging development.

But it is, of course, only part of the overall picture. Banks' disclosed nonperforming loans include only those to bankrupt borrowers and those on which no interest has been paid for six months or more. They do not include "restructured" loans, where interest rates

have been pared to the bone to keep troubled borrowers alive. Last month Mitsubishi Bank gave the first tantalising glimpse of the real scale of the problem when it became the only Japanese bank to release its accounts under US accounting rules. They showed nonperforming loans to be twice the level declared in Japan.

Furthermore, even some of the improvement recorded in the figures for last year is illusory. Last year banks sold ¥3.3 trillion of their worst loans to a newly established institution, the Cooperative Credit Purchasing Council (CCPC). The CCPC helps banks "dispose" of their bad loans by buying them at a discount. The banks write off the remaining charge.

But the banks have to lend

quickly, several more years of sluggish profits.

According to IBCA, the bank credit-rating agency, "it will take another two or three years for the average bank to clean up its balance sheet by using operating profits and hidden reserves".

But perhaps even more disturbing for the longer term is a growing weakness in the banks' underlying performance. Pre-provision operating profit declined for the first time in three years last year as interest rates fell close to the bottom of the current cycle, and non-interest-related revenue registered sharp falls in profits from forex and bond dealing.

In fact, stripping away the various layers that disguise the weakness of the core per-

formance, the only source of profits from which to offset the large loan loss provisions remains sales of equities. Once again the major banks are forced to rely on a rising stock market to support their profitability.

At least the country's four major stockbrokers - Nomura, Daiwa, Yamaichi and Nikko - managed to record increases in pretax profits last year. But the earnings recovery was weak, and from an unprecedentedly low base. Nomura, the largest stockbroker in the world, saw pretax profits rise to nearly ¥50bn, down from almost ¥500bn in 1989-90.

But for the middle-sized and smaller brokers it was another difficult year. Nearly half of all brokers listed on the first section of the Tokyo Stock Exchange recorded pretax losses. The principal problem

they face is heavy dependence on equity commissions. Even the Big Four earn a third of their operating revenue in this way. For many of the smaller firms the figure is over 50 per cent.

They are thus heavily vulnerable to the ebbs and flows of investor interest in the market. The last year has seen daily turnover on the TSE recovering slightly from post-bubble blues, but at 368m shares per day, it is still nearly 100m shares per day lower than the break even point for most brokers.

Getting that breakeven point down has been the key task for most, and cost-cutting has been carried further in the sector than in most other parts of the economy. Staff levels for the industry are down by 22 per cent to 129,000 from the peak of 167,000 in 1991.

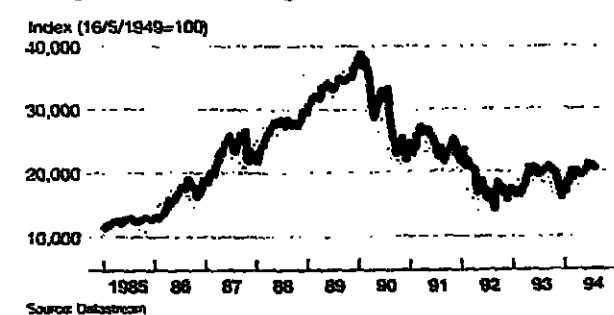
The need to cut costs is made more urgent by the threat posed by deregulation. In the last year, three banks have established broking subsidiaries and later this year a further half dozen are expected to do so. Though the banks are prohibited from trading equities, their underwriting business is eating into the brokers' revenue base.

The large banks and brokers have sufficient capital to see themselves through several more years of difficulties. But some smaller banks and brokers have very little room for manoeuvre. The Ministry of Finance is anxious to avoid collapses and is likely to try to organise a rescue through merger should a failure come.

But this approach is itself symptomatic of Japan's problems. The financial institutions have operated for too long on the assumption that they would not be allowed to fail - hardly a major incentive to greater efficiency. They claim that current problems are merely the backwash of the collapse of the bubble economy.

But as the excesses of the 1980s recede further into the past, the truth is that many companies never were world-class competitors. The last few difficult years have merely exacerbated their problems; they did not create them.

Tokyo stock exchange's Nikkei 225 index



the money to the CCPC to enable it to buy the loans in the first place, so the risk, if the CCPC fails to dispose of the collateral, remains with the banks. The really bad news is that so far the CCPC has collected just one per cent of the value of the loans it has bought. And the average discount at which the CCPC buys the loans has been increasing sharply - last month it reached over 70 per cent. If it fails to dispose of the loans it has bought, the banks will have further provisioning to do.

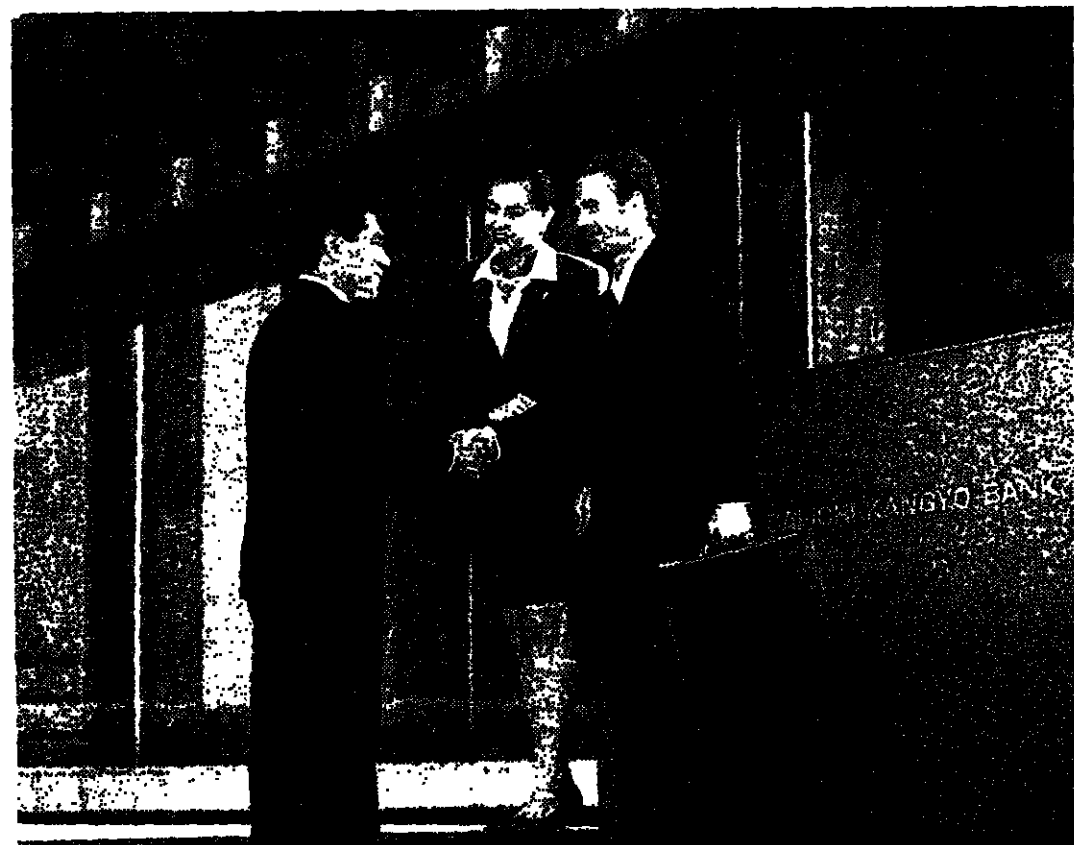
These two factors lead most analysts to estimate that Japanese banks' actual total problem loans are roughly twice the disclosed amount - more than ¥25 trillion, or at least 6 per cent of total loans. They will require significantly higher write-offs, and, conse-

quently, several more years of sluggish profits.

According to IBCA, the bank credit-rating agency, "it will take another two or three years for the average bank to clean up its balance sheet by using operating profits and hidden reserves".

But perhaps even more disturbing for the longer term is a growing weakness in the banks' underlying performance. Pre-provision operating profit declined for the first time in three years last year as interest rates fell close to the bottom of the current cycle, and non-interest-related revenue registered sharp falls in profits from forex and bond dealing.

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Memories: Koreans seek Japan apology over use of wartime sex slaves

When Asians fret about Japan these days, they are rarely concerned by Japanese atrocities in Asia during World War Two or the tactless denials of Japan's war record by right-wing politicians in Tokyo; they are usually anxious about winning a share of the next round of Japanese investment. Except in China, Korea and occasionally in the Philippines and Singapore - whose peoples suffered most from Japanese imperialism - there is little interest in Japan's tentative efforts to adopt a more assertive foreign policy to match its economic power.

Asian governments and businesses from India to the Philippines are more preoccupied by Japan's money and manufacturing skills than its history. This is especially true of south-east Asia. Japanese investment in everything from vehicle assembly to the manufacture of computer disk drives and air conditioners has been the driving force behind

Asians concentrate on bid for Japanese capital, says Victor Mallet

So polite about the past

the rapid economic growth of countries such as Thailand and Malaysia since the 1970s. More than 90 per cent of cars in Thailand are Japanese marques, most of them assembled in Thailand. In Malaysia, the factories of the Japanese company Matsushita alone account for about four per cent of the country's gdp.

The recent liberalisation of the economies of China, Vietnam and India was therefore regarded with some trepidation in south-east Asia, because it was assumed that these three capital-hungry countries would receive so much Japanese investment that the rest of Asia would be starved of new money.

At first the figures appeared to confirm the hypothesis.

Japanese investment at the start of the decade rose sharply in China - Hitachi says six of its nine joint ventures in China were established in the past three years - and fell in some traditional south-east Asian recipient countries. Governments hurried to improve their investment incentives.

They need not have worried. The remorseless rise of the yen against the dollar has obliged Japanese companies to move increasingly sophisticated production lines offshore where wages are lower, and the big corporations are being followed by component suppliers which also need to reduce costs to remain competitive.

Broadly, investments in China are designed to supply

goods to China's huge domestic market or to produce labour-intensive products for export. The various national markets of south-east Asia are also important (especially Indonesia and Thailand), but the purpose of many new Japanese investments there is to produce medium or high-tech products for export to Japan, America and Europe.

Mitsubishi Electric, for example, shifted production of its standard line of elevators from Japan to Thailand in 1991. The same company says that since last year it has been producing 90 per cent of its floppy disk drives in Thailand.

Last year for the first time Japan imported more colour televisions than it exported; the same is true of other products such as refrigerators.

Hitachi is in the process of shifting production of one type of refrigerator compressor from Japan to a new factory in Ayudhya north of Bangkok, and is building a facility in the Philippines to make mini hard disk drives.

But the six members of the Association of South East Asian Nations (Asean) - namely Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand - will have to deal with two potential problems in their partnership with Japanese companies: if they are to prosper in the midst of corporate Japan's growing fascination with China and India: the first problem is the slow evolution of the Asean Free Trade Area (Afta), and the second is a dispute over technology transfer.

Although the influential Japanese motor industry managed through lengthy negotiations to secure special tariff reductions for car components

traded between Asean countries - the so-called "brand-to-brand" complementarity scheme - Japanese and other manufacturers are often frustrated by the difficulty of establishing integrated operations within Asean.

Car component maker Nippondenso, for instance, is in the throes of negotiations with Asean governments; the company wants to specialise in particular products at each of its factories in Asean instead of duplicating its efforts in several different countries.

Afta is an attempt to deal with this sort of difficulty, but under the present agreements individual countries can and do undermine free trade principles by excluding numerous products they regard as sensitive from the tariff cuts. Even for products embraced by Afta, tariffs are scheduled to fall to between zero and five per cent only in the year 2008.

Economies of scale are therefore not always available in Asean, at least not for the regional market. "If they want to grow faster they have to give up these nationalistic policies," says Mr Minoru Tsukada, manager of Asian business development at Hitachi.

If Afta succeeds, therefore, Asean members may have to watch Japanese companies close down operations in one country and consolidate their operations in another - a process which has from time to time caused nationalistic outrage in parts of Europe.

And if Asean banks at such rationalisation, Japanese companies can always mention China. Mr Nobuhiko Ogata of Mitsubishi Electric says of the company's television plants in

Thailand, Indonesia and Singapore (the Singapore operation is expected to move to neighbouring Johor State in Malaysia): "Either we still continue to produce in those three locations; or by integrating and increasing the volume we reduce the cost; or we establish a new facility in China and we discontinue those which produce in smaller countries."

As for technology transfer, non-Japanese Asians often accuse Japanese investors of arrogantly refusing to pass modern technology to developing countries or promote enough locals to management posts. This was particularly true of Proton, the Malaysian carmaker in which Mitsubishi Motors has a 15 per cent stake. Japanese businessmen can barely hide their impatience at such accusations, pointing out that technical knowhow takes time to acquire and cannot simply be handed over like a car component. They complain of everything from a lack of trained scientists to unstable electricity supplies.

But they acknowledge that they have been slow to move research and development activities into Asia, and are gradually starting to do so now.

In spite of Japan's war record in Asia, and in spite of occasional disputes, commercial relations between Japan and the rest of Asia seem to be warmer than ever. A decade ago, Japan exported a third more to the US than to Asia; now it exports a third more to Asia than to the US.

US trade officials look to Asia for allies when they argue with Tokyo over Japan's trade surpluses, because, like the US, many Asian countries suffer from severe deficits in their trade with Japan. One reason why the US finds little sympathy in Asia is that Asian exports to Japan are increasing, and many of those exports are Japanese branded products made outside Japan.

Foreign policy is in the melting pot, writes William Dawkins

Towards a new Far East role

"If Japan evades the costs associated with free trade and stability, world peace and freedom are run the serious risk of denying ourselves our own peace and prosperity."

"Despite the gravity of the situation, Japan's political world - which is supposed to recognise harsh realities and steer the country in the right direction - is at present unable to make any effective decisions at all."

This passage from *Blueprint for a New Japan*, the political best-seller by Ichiro Ozawa, the former government's backroom strategist, became painfully relevant last month when the fourth government in the space of a year took office, thus disrupting Japan's sensitive process of waking up to its responsibilities in a newly unstable post-cold war era.

It is perhaps unfair to accuse Japan of not shouldering its burden, since it has been the world's biggest provider of development aid for the past three years. Moreover, Japan will lift its assistance budget by 1.6 per cent this year, rather more than the overall state budget, at a time when other leading donors are suffering from "aid fatigue".

Even so, the fact that until the collapse of the Soviet Union in 1991 Japan was spared the military or economic cost of stability is generally accepted as an element both in its economic success and its diplomatic weakness.

While the US assured peace in Asia, partly through the presence of its troops on Japanese soil, Japan concentrated on economic growth, a strategy known as the Yoshida doctrine, after the prime minister who was the architect of the post-war Japanese state. In return, Washington knew it could count on Japan as a bulwark against communism in Asia.

The US-Japan balance, the pivot of Tokyo's foreign policy, has now become less predictable, partly because of the end of the cold war, but also because of Japan's own vagaries.

In theory, the Social Democratic Party of Mr Tomiichi Murayama, the new prime minister, wants to end the US-Japan security treaty, the staple of Tokyo's special relationship with Washington. In practice, Mr Murayama, has pledged to honour the treaty, reflecting the fact that he owes his position to the support of the conservative Liberal Democratic Party.

The conservative nature of the new government may keep the special relationship with Washington intact. But it also marks a break with the policy

created by the previous two coalition administrations, of abandoning Japan's passiveness in international affairs and seeking to make a greater contribution on the world stage.

One of Mr Murayama's first acts as new leader was to tone down the campaign to be admitted as a permanent member of the UN security council, the top table of the world's top stage.



Yasuaki Akashi, the UN special envoy for former Yugoslavia

powers. Bafflingly for Japan's foreign partners, this came only weeks after his predecessor, Mr Tsutomu Hata, made an unprecedentedly explicit bid for the council seat. The Murayama administration is also more cautious than the previous one possible sanctions against North Korea, cause for some anxiety in Washington.

While the political storms rage overhead, Japan's professional diplomats have been striving to keep foreign policy



Mrs Sadako Ogata, UN high commissioner for refugees

on course. Indeed, the frequent changes of governments have increased their responsibilities more than in the case for most bureaucrats.

In recent weeks, Japanese diplomats won praise from western officials by lobbying China to obtain good behaviour from North Korea and helping to smooth relations between the UK and China over Hong Kong. Two prominent Japanese, Mrs Sadako

Ogata, UN high commissioner for refugees, and Mr Yasuaki Akashi have played leading parts in Bosnia, a conflict in which Japan's short lived governments have had no time to take an interest.

But perhaps the most sensitive task facing Japan's foreign policy makers today is the subtle renegotiation of the relationship with the US.

The foreign ministry wants to keep the US security link as tight as ever, yet at the same time other departments, such as the finance and international trade and industry ministries, want to test the limits of Japan's post-cold war freedom to be more assertive towards the US on trade and economic issues. "We are getting both more and less assertive towards Washington," says Mr Kiyoshi Kikuchi, a former ambassador to the UN.

Former prime minister Morihiro Hosokawa's agreement to disagree with President Bill Clinton, at their summit in February, over US demands for numerical targets for increases in imports to Japan, made it look as if Japan was ready to tilt away from Washington.

It was a remarkable break with the comfortable tradition of US-Japanese summits, in which the Tokyo side would hand over trade or economic concessions in return for promises of everlasting protection.

Senior foreign ministry officials were, unsurprisingly, worried that the trade row would spill over into security relations. To their relief, the Clinton administration has softened its tone towards Japan.

The trade dispute might be under precarious control for the moment, yet it is only the latest example of Japan's difficult search for a voice independent of Washington.

It ignored Washington in 1990 by resuming aid to China after the Tiananmen killings and was a persistent exponent of avoiding a link between trade and human rights. Japan ignored the US embargo on Vietnam two years ago and is now resisting US pressure to step up aid to Russia because it first wants progress on the disputed Russian-held Kuril Islands north of Japan.

The common theme in these gestures of independence from the US is the growing importance to Japan of its Asian neighbours. They represent Japan's largest export destination, its fastest growing market and its fastest growing destination for industrial investment.

Japan is cautiously feeling its way towards a new role in Asia. It is a highly sensitive process, constrained by local wartime memories, which prevent Tokyo from seeking regional leadership, and Japan's own wish not to weaken that sacred link with Washington. "How can we tilt towards Asia without tilting away from the US?" muses one Japanese diplomat.

Japan's ministry of international trade and industry took an influential, but discreet part five years ago in forming the Asia-Pacific Economic Cooperation Forum, a grouping designed to foster economic cooperation in the region.

But Japan has taken a low profile in Apec discussions. Its search for a voice has not been helped by Malaysian prime minister Mahathir Mohamad's calls for an East Asian Economic Caucus, to exclude non-Asians. Mr Mohamad's scheme places uncomfortable pressure on Japan to do just what it wants to avoid, choosing between the US and Asia.

So far, Tokyo has managed to suppress the dilemma thanks to an accord between Asean countries to subsume Mr Mohamad's caucus into Apec. But Mr Mohamad continues to criticise Japan's non-committal stance. Japan will have an opportu-

nity to move closer to Asia's centre stage next year when Apec leaders are due to hold a summit for the first time in Tokyo.

Japan is, meanwhile, pushing regional cooperation on security through an 18-country Asean Regional Forum, inspired by a former Japanese foreign minister, which will hold its first meeting in Thailand at the end of this month.

Diplomats hope that this will at least start a regular exchange of security information between often distrustful Asian neighbours, though the first meeting is likely to be of merely symbolic value. The mere fact of getting the mili-

tarily powerful China engaged in multilateral debate will be valuable, say analysts.

The forum's Bangkok meeting will also be an indicator of the state of Japan's regional problems in its partnership with Japanese companies: if they are to prosper in the midst of corporate Japan's growing fascination with China and India: the first problem is the slow evolution of the Asean Free Trade Area (Afta), and the second is a dispute over technology transfer.

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Financial Results as of 31st March 1994

	Millions of Yen Year ended 31st March 1994	Millions of Yen Year ended 31st March 1993
Income before Income Taxes	¥38,237	¥48,192
Net Income	14,287	18,698
Total Assets in Banking Accounts	15,341,083	16,416,499
Total Assets in Trust Accounts	34,414,646	33,176,018
Dividend	¥8.50 per share	¥8.50 per share

The Annual Report for year ended 31st March 1994
will be available upon request from September.
Please direct enquiries to the address below.

The General Affairs Dept.
The Sumitomo Trust & Banking Co., Ltd.
London Branch
155 Bishopsgate, London EC2M 3XU
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JAPAN 6

William Dawkins charts the end of a political era

The triangle breaks

Seismic upheavals in Japanese politics over the past year have caused the old power structure to shift and crumble, but a new one has yet to take its place.

The dominance of the Liberal Democratic Party, which has just returned to power after spending nearly a year in opposition for the first time in its 39-year life, has been terminally damaged. Unstable coalition governments may be the norm for the next few years.

Japan's conservative post-war rulers were only able to seize power three weeks ago thanks to the support of their lifetime enemies in the left-wing Social Democratic Party, a telling sign of how completely the old balance of power has been upset.

It could take several general elections before stability returns. As so often in Japan, underlying change is not as fast as it looks on the surface.

The LDP's defeat in a general election last year, precipitated by the defection of reform-minded politicians from its own ranks, led by Mr Tsutomu Hata and his mentor Mr Ichiro Ozawa, ushered in what looked like a radical seven-party coalition. Led by an idealistic former prefectural governor, Mr Morihiro Hosokawa, it embraced a wide range of interests from the religious right to the extreme left and promised to introduce a new

political style and structure.

Mr Hosokawa won instant popularity by staking his job on achieving parliamentary agreement on a new political and electoral system designed to curb corruption.

The Keidanren, Japan's powerful business federation, recognised that the old system was really on the way out when it decided, days after Mr Hosokawa's arrival, to stop channelling funds to political parties. Keidanren cash, in return for a guarantee that government would be sensitive to big manufacturing industry's voice, was crucial to binding the so-called iron triangle of business, politicians and the bureaucracy together. The LDP's return in no way tempts the Keidanren to change its ban on political donations, says its new chairman, Mr Shichiro Toyoda.

Failure to deliver on political reform, under debate for the previous five years, had contributed to the decline of two former LDP prime ministers. So it was no surprise that Mr Hosokawa had to water down his proposals to obtain agreement from the reluctant LDP and SDP old-guards, many of whom fear they will lose their seats under the new system.

The final plan, agreed in January, will tightly regulate political fund raising and replace Japan's unique multi-

seat constituency system with a mixture of single seat districts and proportional representation. All that remains is for new electoral boundaries to be drawn, to reflect the new system and to increase the power of under-represented urban voters. The new government of Mr Tomichi Murayama aims to complete this by the autumn.

Soon after Mr Hosokawa's political reforms cleared parliament, his coalition was plunged into a divisive argument over tax. At this point, old style Japanese politics began to take its revenge. The LDP, resorting to a tactic used against itself while in government, blocked parliamentary debate on this year's budget to put pressure on Mr Hosokawa to disprove two not so serious allegations of personal financial impropriety.

An increasingly tired and frustrated Mr Hosokawa joked over dinner with friends that he might as well resign. Two days later, in early April, he did just that, to the surprise of both his allies and enemies.

The old order, in which decisions are made by consensus in backrooms rather than debated in open parliament, began to reassert itself. Evidence of this was a secretive deal between centre-right members of the coalition to form a parliamentary group, called Kaishin, or



Strange marriage: socialist premier Tomichi Murayama (c) clinches a three-way coalition deal with Liberal Democrats party president Yoshihide Kono (l) and New Party Seisaku leader Masayoshi Takemura (r) (Reuters)

innovation, with the blessing of Mr Ozawa, the government's brilliant but accident-prone backroom strategist.

The SDP, the largest member of the coalition, promptly walked out in anger at being excluded. This deprived the government of a majority only hours after it had selected - ironically with SDP support - Mr Hata, the former foreign minister, as the new prime

minister. From that moment, the Hata administration was doomed. The opposition consented to keep it in power only until the current year's budget, already three months overdue, had cleared parliament. Rather than lose a no-confidence motion supported by both the LDP and an angry SDP, Mr Hata stepped down after the budget and after just two months in office, in the hope of

forming a majority coalition behind the scenes. It had been the shortest-lived Japanese government since 1945. In the event, Mr Hata and Mr Ozawa failed to attract the SDP back to their camp. In a desperate final bid for power, they fielded as their leadership candidate Mr Toshiki Kaifu, a reform-minded former LDP prime minister.

The stratagem failed. Mr Kaifu lost a parliamentary vote to Mr Murayama, chairman of the SDP who agreed, in a flurry of last minute bargaining, to form a government with his old foe, the LDP. The wily Mr Ozawa's miscalculations consigned him - no doubt temporarily - to obscurity, just two years after he was poised to inherit the LDP's most powerful faction.

The LDP-SDP marriage is strange by any standards. It remains to be seen whether the LDP's leader, Mr Yoshihide Kono, is better at working with a divided and erratic Socialist party than was Mr Hata, or whether the alliance will break up like its predecessor. The desire to stay in power may be strong enough to suppress policy differences.

The past year's political power struggle has been greeted with polite bafflement

KEY FACTS

Area	377,750 sq km
Population	124.5 million
Head of state	Emperor Akihito
Currency	Yen (¥)
Average exchange rate	1993 \$1=¥ 111.2
	1994 \$1=¥ 98.57 (8/7/94)

ECONOMY

	1993	1994
Total GDP, constant (¥ '000bn)	421.2	423.7
Real GDP growth (%)	0.1	0.6
Components of GDP (%)		
Private consumption	57.7	n/a
Government consumption	9.6	n/a
Private housing	5.1	n/a
Private plant and equipment	16.4	n/a
Public investment	8.5	n/a
Change in stocks	0.2	n/a
Exports	9.4	n/a
Imports	-7.1	n/a
Annual average % growth in		
Consumer prices (%)	1.3	0.6
Industrial production (%)	-4.5	-1.5
Employment (%)	0.2	0.3
Unemployment rate (%)	2.5	2.9
Unit labour costs (%)	2.2	0.6
Government bond yield (%)	3.18	4.24
Total reserves minus gold (\$bn)	98.5	n/a
Money growth (M2+CD) %	2.2	2.7
FT-A index (% change)	2.91	17.8
General govt financial bal.	0.3	-1.9
Current account (\$bn)	131.4	105.8
Merchandise exports (\$bn)	351.3	358.0
Merchandise imports (\$bn)	209.8	225.5
Trade balance (\$bn)	141.4	112.5
Main trading partners (%)		
US	29.2	22.9
Hong Kong	6.3	n/a
Taiwan	6.1	4.0
South Korea	5.3	4.9
Germany	5.0	4.1
China	4.8	8.5

(1) 1994 forecast unless otherwise indicated. (2) End period. (3) July 1994. (4) M2+Certificates of deposit. (5) April 1994. (6) Dec 1993-July 1994. (7) % of GDP. (8) Share of world trade 1993

Sources: IFS, EU, OECD, Datastream

JUNE 18, 1993. Liberal Democratic Party government loses no-confidence motion initiated by Social Democratic Party and backed by LDP rebels.

● JULY 18. LDP loses majority 18 general election.

● JULY 29. Mr Morihiro Hosokawa, head of the Japan New Party, and a crusader against anti-corruption, chosen as prime minister by seven opposition parties, including SDP. Mr Hosokawa promises to take political responsibility - meaning resigns or call snap elections - if promised political reforms are not enacted by year end.

● NOVEMBER 18. Four reform bills passed by Lower House and sent to Upper House, where they hit delays, due to fierce controversies over budget bills and foreign calls for end to ban on rice imports.

● DECEMBER. Against fierce opposi-

Year of change

tion from LDP and SDP. Mr Hosokawa announces partial opening of rice market, part of deal to complete Uruguay Round of global trade negotiations. He wins 45-day extension of parliament to push through reforms.

● JANUARY 5, 1994. Upper House begins debate on political reform.

● JANUARY 20. Reform bills are passed by special Upper House reform panel, thanks to an LDP defector, and sent to full session.

● JANUARY 21. Full Upper House votes down reforms. Mr Hosokawa later has to compromise with LDP to get watered-down version passed.

● FEBRUARY 2. Mr Hosokawa shocks coalition partners by announcing plans to more than double sales tax to seven

per cent, to finance proposed income tax cuts. Forced to withdraw tax plan five days later.

● FEBRUARY 11. Trade summit with U.S. President Bill Clinton ends in failure after Mr Hosokawa rejects U.S. demands to set numerical targets for opening up Japan markets.

MARCH. LDP blocks state budget due to take effect on April 1 in bid to force Hosokawa to clear doubts over a 1992 loan he allegedly used illicitly for a political campaign.

● APRIL 1. Deadline for passage of 1994/95 budget missed, parliament grudgingly votes stopgap finance bill.

● APRIL 8. Hosokawa resigns to take

responsibility for parliamentary deadlock over personal finances.

● APRIL 25. Mr Tsutomu Hata, head of centre-right Japan Renewal Party, elected prime minister with SDP help. Hours later, SDP leaves the coalition in protest at efforts to marginalise it.

● APRIL 28. Mr Hata, leader of Japan's first minority government since 1948, forms cabinet.

● JUNE 23. With tacit backing of LDP and SDP, minority coalition finally sees long-delayed state budget voted into law. LDP immediately submits no-confidence motion.

● JUNE 25. Mr Hata resigns, after breakdown of talks with SDP, unable to agree on tax reform.

● JUNE 29. LDP agrees to back Mr Tomichi Murayama, SDP chairman, as prime minister. Mr Murayama wins parliamentary vote against Mr Toshiki Kaifu, an LDP defector adopted as coalition candidate.

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MONACO

Tuesday July 19 1994

The property market has fared better than those of its neighbours: Page 3

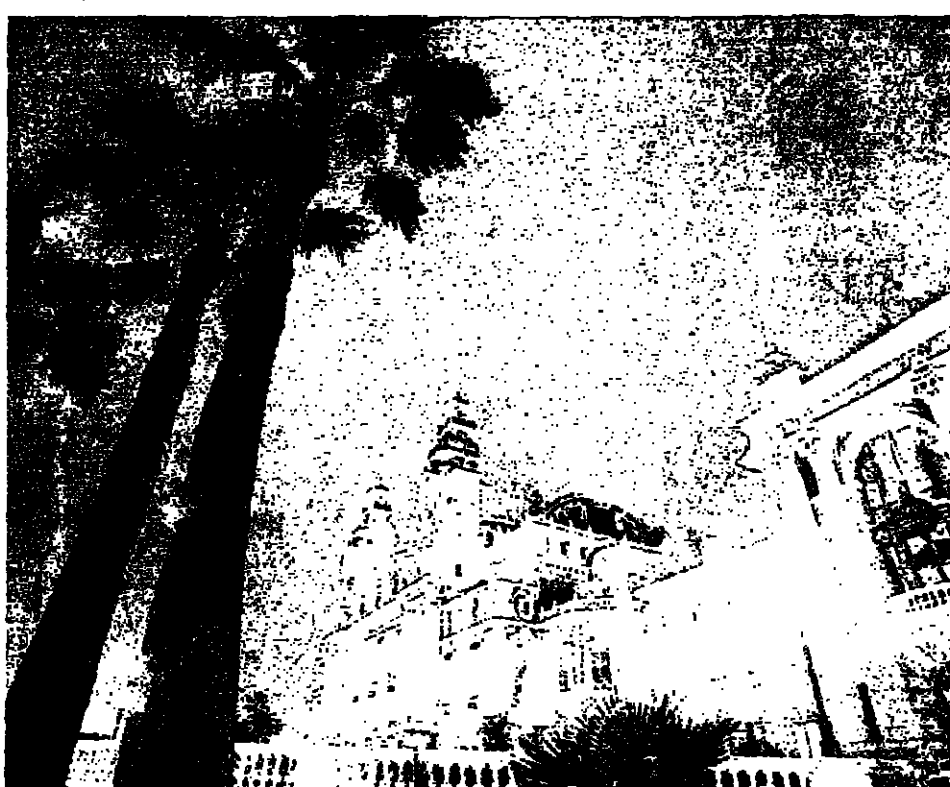
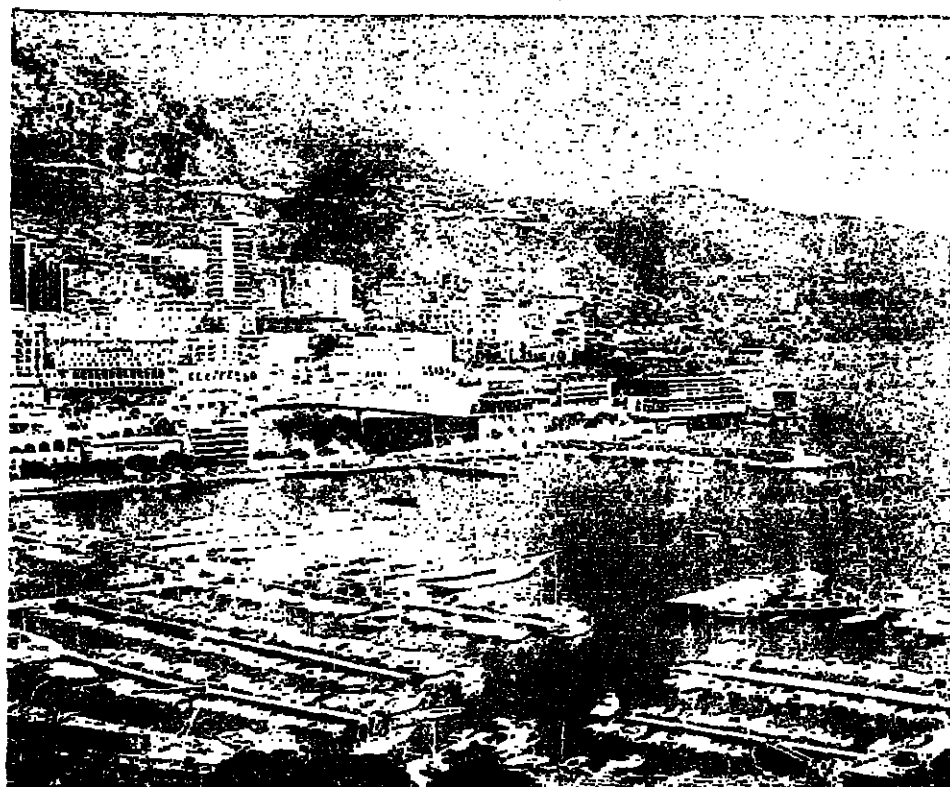
One photograph hanging in the Monaco government offices shows the principality in 1868 as a cluster of houses perched on the rock around the palace. The picture beside it was taken in 1949 after the casino had ushered in a new era of affluence, and a final photograph depicts the modern Monaco where every scrap of land is crisscrossed with high-rise apartments, hotels and offices.

The three photographs tell the story of Monaco's metamorphosis from the dusty old Mediterranean town of the mid-19th century to the leisure resort and fledgling financial centre of today. They also illustrate how Prince Rainier, who took the throne in 1946 as Europe's sole surviving absolute monarch, has clung on to his country against the odds and turned what was once a playboy's playground into a more broadly-based, if idiosyncratic economy.

His achievements have recently been put to the test by the economic recession and so far he has passed with flying colours. Monaco, like every other European country, has been affected by the downturn, but it has fared far better than most places, notably the nearby towns of Nice and Cannes. The level of employment in the principality fell by less than 3 per cent in 1993 and, at the end of March, only 700 people from a population of 30,000 were out of work.

"We have felt the effects of the recession, but it has been much milder in Monaco than in France or Italy," says Jean Pastorelli, government councillor on finance. "The recession has also been shorter here. The level of activity has already picked up since the start of this year and many local companies, having laid people off last year, are now hiring again."

The key themes of Prince Rainier's reign have been to develop the local economy thereby providing long-term employment for the 5,000 or so surviving Monegasques and to nurture good relations with France, his powerful neighbour. When he took the throne Monaco's only assets were its



Two faces of opulence: an aerial view of Port Hercules where some of the world's most luxurious yachts are moored (left); and a view of the famous Monte Carlo casino at night, where gamblers stake fortunes at the tables

An anachronism – but it works well

Prince Rainier's achievements have recently been put to the test by the economic recession, and so far he has passed with flying colours, writes Alice Rawsthorn, who is the author of this survey

climate, its picturesque position and its liberal fiscal system.

His principality had become, in the words of Somerset Maugham, a "sunny place for shady people" that risked falling victim to the sleazy side of the Côte d'Azur underworld.

Rainier, helped by Grace Kelly, the Hollywood movie star whom he married in 1956, spruced up Monaco's image and restored its lost lustre. He created a country which was scrupulously clean and virtually crime-free thanks to a large, well-trained police force. He also kitted out Monaco with every conceivable convenience including street signs, escalators, pedestrian subways and even doggy shelters where pampered pooches can shade themselves from the sun. The principality soon regained its old status as an upmarket holi-

day resort and became a popular haven for wealthy tax exiles.

Monaco still fulfils those roles today. There might not be quite as many rich tourists who are able, and willing, to check into its luxury hotels as there were in the 1950s. But Monaco has recognised reality by building up a business conference business and creating new facilities for the thousands of day-trippers flooding in from France and Italy. The local tourist industry was affected by the recession last year but not as badly as other parts of the Côte d'Azur. The number of visitors fell by 15 per cent to 208,206 from 245,592 in 1992 and

has been increasing so far this year.

The principality has also taken on a new lease of life as a tax haven. Only a few years ago it was in danger of being seen as a retirement home for elderly ex-pats of Prince Rainier's own vintage. It has since attracted a new generation of ex-pats in the globe-trotting supermodels Claudia Schiffer and Helena Christensen, who have joined long-time residents, such as Karl Lagerfeld, the fashion designer, and Helmut Newton, the photographer. The supermodels have also provided a new source of publicity after the apparently endless paparazzi pictures of

Rainier's children: Caroline, Albert and the wayward Stéphane.

The influx of new residents, coupled with the expansion of the tourist trade, has stimulated the property market.

The property business is no longer as frenzied as it was in the late 1980s, but it is still relatively robust thanks to the scarcity of land and the supportive presence of long-term investors such as Société des Bains de Mer, the state-controlled leisure company, and Pastor property group.

The price of residential property is only 10 per cent or 20

per cent beneath its peak. Prices in Monte Carlo's prestigious Place du Casino are still comparable with the most expensive parts of Paris.

Meanwhile, the local banking industry has flourished since the 1987 abolition of French exchange controls which enabled foreign investors to move money in and out of Monaco more easily – and discreetly. The number of banks in the principality has since doubled to just under 40 and the value of private client deposits has almost quadrupled to FF80bn. The banks have recently experienced a slowdown in growth, but still expect an increase in deposits

and assets for 1994. At the same time the introduction last year of tough new banking laws has been welcomed by bankers as evidence of Prince Rainier's determination to prevent Monaco from becoming a money laundering centre for French drug dealers and refugees from Italy's corruption crackdown.

The banking laws are also illustrative of Prince Rainier's diplomatic skills. He realises that his absolute monarchy and the continued existence of a country with a population of 30,000 (only 5,000 of whom were actually born there) is an anachronism. He also knows that France could take away Monaco at any time as General de Gaulle demonstrated in 1962 when he sealed off the border with troops in protest at the number of Frenchmen using it as a tax haven.

Prince Rainier, nothing if not a realist, immediately agreed to exclude the French from Monaco's tax privileges. He has since stuck to the same conciliatory approach on the assumption that France will tolerate Monaco's independence only for as long as it does not pose any problems. Hence his government's zeal at cracking down on money launderers.

Yet the success of Prince Rainier's economic policy has given him another defence in the political game against the French. The expansion of the local economy has not only enabled him to protect the indigenous Monegasques by giving them cheap housing (in the Fontvieille area that has been reclaimed from the sea) and preferential employment rights, but also to generate jobs for French workers.

The principality now employs just over 30,000 people only 7,000 of whom are Monegasques, either living in Monaco itself or in cheaper places across the French border. Some 3,000 Italians and 17,000 French also work there. The French government would be loath to see these jobs disappear at a time of high unemployment if Monaco lost its independence and its special tax status.

Prince Rainier continues to finance new economic development projects such as the FF1.2bn new conference and cultural centre due to open in 1998 and his FF1.4bn scheme to liberate more land by submerging the railway station. The government is also working on turn-of-the-century land creation projects such as the construction of a new jetty beside the present harbour and the creation of Fontvieille II on another sea reclamation site.

"The impression one gets is that Rainier is a very clever businessman in the tradition of *grands patrons*, the great French bosses," says one foreign banker. "He may be an absolute monarch, but he is far too astute to use his power blindly. There are never any surprises but you always know that a firm hand is in control. Monaco might be an anachronism – but it works."



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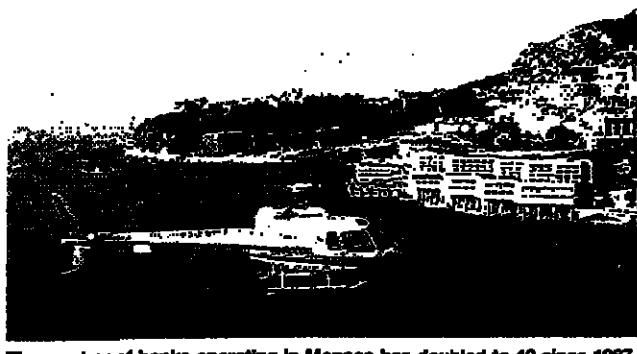
There is a story in Monégasque banking circles that an Italian recently appeared in one of the local banks bearing a cardboard box containing 1.7bn in used notes which, he told the manager, was the profit from the sale of his business back in Italy.

Such stories crop up from time to time in Monaco, although not as often as they did in the past. The principal reason still has the reputation of being a secure and discreet bolt hole for large quantities of cash. But the introduction last year of tough new laws to crack down on money laundering and to compel local banks to exercise tighter scrutiny over the source of their clients' funds, gave a very clear indication of the way the government plans to encourage the banking industry to develop.

"Monaco has established itself as a financial centre in a very short time," says Michel de Robillard, chairman of Crédit Foncier de Monaco, the subsidiary of Suez, the French financial group, which is one of the biggest banks in the principality. "The government realises that if Monaco is to fulfil its full potential in the financial sphere, the banking industry must be strong and clean."

There has always been a small banking business in Monaco but it was only after 1987, when the French government abolished exchange controls thereby enabling foreign clients to move money quickly and discreetly in and out of the country, that the local financial industry really took off.

The number of banks operating in the principality has since doubled to around 40. The old independent Monégasque banks have all disappeared. The banking market is dominated by the big French financial groups such as Crédit Lyonnais, Banque Nationale de



The number of banks operating in Monaco has doubled to 40 since 1987

Reputation as a bolt hole persists

Crackdown on banks welcomed

Paris, Société Générale, Paribas and Suez. Yet the other leading names in European banking are also represented. Most Monaco banks concentrate on providing private banking services for the wealthy private clients - or "high net worth individuals", as they prefer to call them - who want to take advantage of the country's tax advantages. Any foreigner, apart from the French, does not have to pay tax on money deposited or invested in the principality.

The private banking sector has expanded dramatically since 1987 with the total value of client deposits almost quadrupling from around FF22bn (\$3.9bn) eight years ago to an estimated FF30bn today. The deposit market grew by between 20 and 25 per cent a year during the late 1980s and has continued to expand (albeit

at a slower rate) since the start of the economic recession.

"It's true to say that life is more difficult in private banking than it was at the height of the boom three or four years ago," says Martin Peake, head of the Monégasque branch of Lloyds, the UK banking group. "But we've had a far easier time than private bankers in other places. The market here in Monaco is still growing. It's just growing more slowly."

The consensus among local financiers is that the value of private client deposits rose by between 5 per cent and 10 per cent last year and has increased by about 5 per cent in the opening months of this year. However, these figures conceal a trend for clients to counter lower interest rates by switching their money from deposits into more efficient vehicles such as mutual or managed funds. As a result the local banks benefited last year from an estimated 20 per cent increase in the value of the assets placed in Monaco.

This expansion helped to counter the effects of the economic recession, which has posed problems for the dozen or so local banks that are still involved with commercial banking activities such as loans to local companies and property finance. Monaco has not been as badly affected by

the economic downturn as nearby Nice or Cannes. However, some sectors of the economy, notably the tourist industry and property development, have been depressed with a knock-on effect on their banks.

The continued growth in private banking has also persuaded some new international banks to sustain the financial sector's expansion by setting up subsidiaries in Monaco. The latest arrivals include the ABN of the Netherlands.

Local financiers suspect that one of the main reasons for the buoyancy of the banking market is psychological. "Monaco is an attractive place, but it's also clean and peaceful," says Mr de Robillard of Crédit Foncier de Monaco. "There's virtually no crime, which means that our clients can feel calm and comfortable when they come here. All that is very appealing at a time of uncertainty."

He is also convinced that the banking industry has benefited from becoming more professional in recent years due to the restructuring efforts of the banks themselves and the expansion in related areas such as the arrival of international legal firms.

The new banking legislation has been welcomed as part of this process particularly by those who remember the collapse of Banque Industrielle de Monaco in 1989. The bank was closed by the French banking authorities after an official investigation discovered that it had built a substantial business by accepting "cat's paw" bearer deposit notes in Monégasque names for tax-avoiding French residents.

"None of us wants to see a repetition of the BIM debacle," says one local banker. "It would be bad for Monaco's image and bad for business. Nor would it be in anyone's interest for Monaco to become a haven for money launderers."

Monaco has always been subject to French banking regulations but most local financiers believe that the new laws give them a necessary layer of extra protection. "This legislation won't actually alter the way that we operate," says Mr Peake of Lloyds Bank. "But it should help us by sending out the right signals. It might make our international clients feel more confident about investing their money here."

Société des Bains de Mer is a Monégasque institution

Catering for leisure seekers

You could stay at the sumptuous Hôtel de Paris and treat yourself to a three-star meal at the Louis XV restaurant. You might risk some chips at the Monte Carlo casino and stop for a cocktail on the terrace of the Café de Paris before dancing the rest of the night away at Le Jimmy's night club.

If you did all this you could spend a couple of days in Monaco - and a very pleasant few days at that - without ever leaving the properties owned by the Société des Bains de Mer (SBM), the privately named leisure company which is by far the biggest single business in the principality.

SBM is more than a business, it is a Monégasque institution. It is not only the largest commercial concern in Monaco (with sales of FF1.75bn in its last audited financial year to March 30 1993) but is also the largest employer with a workforce of 2,600 in a country with a population of 30,000.

Although SBM is a publicly-quoted company with shares listed on the Paris stock exchange, its ownership is dominated by the state. The Monaco government has owned 70 per cent of the group since 1966 when it bought all the shares amassed by Aristotele Onassis, the Greek shipping magnate who was one of the most prodigious players at the Monte Carlo casino. Onassis had for years been buying up small stakes in SBM until eventually he had control and Prince Rainier decided the government should buy him out.

Yet the relationship between SBM and the Monégasque state goes back far further than the mid-1960s. The company traces its roots to 1893 when Prince Charles III gave a 50-year licence to operate a casino in Monte Carlo to François Blanc, who had turned the Bavarian town of Bad Homburg into a glamorous gambling centre.

François Blanc was charged with creating a casino and an hotel in Monte Carlo, which was then a desolate olive grove on the hill opposite the royal palace. His company was christened, Société Anonyme



Dining in style: super chef Alain Ducasse has won three Michelin stars for the Louis XV restaurant

des Bains de Mer et du Cercle des Etrangers, or the sea bathing society and circle of strangers, as a euphemism to throw the French authorities off the scent in case they objected to Monaco's newfound zest for gambling.

SBM has continued the practice of combining hotel ownership with casino operation. Its interests, which occupy a twelfth of the land in Monaco, include the Hermitage, Mirabeau and Monte Carlo Beach hotels, as well as the Hôtel de Paris, together with the Opéra, Sun Casino and the sporting, golf and country clubs.

Raoul Blanchet, the present chairman, insists that the SBM will not deviate from its traditional role. "Diversification isn't anything that we know about or are interested in," he says. "Our expertise lies in owning and operating casinos and hotels here in Monaco. That's what we're good at."

The company's cautious attitude towards expansion is possibly reinforced by the memory of its unsuccessful investment in Baudouin, a Paris stockbroker that collapsed in the late 1980s. Yet Mr Blanchet also rules out the less dramatic option of investing in hotels and casinos outside the principality.

"We're prohibited by our company statutes from becoming

involved with gambling outside Monaco," he says. "It may be that a similar restriction applies to hotels. I don't know. But we're not a hotel and leisure company in the conventional sense. We really do have a very particular specialisation."

SBM has instead been investing heavily in its existing interests. It started to do so after a painful period in the mid-1980s when its profits fell, reflecting heavy losses at the casinos and low occupancy rates at the hotels which were then regarded as loss leaders for its gambling interests.

The group embarked on an upgrading programme, beginning by luring Alain Ducasse, one of France's young superstar chefs, to the Hôtel de Paris where he has since won three Michelin stars for the Louis XV restaurant.

It has just completed a three-year investment scheme that included refurbishing the Hôtel de Paris and the Hermitage, rebuilding most of the Monte-Carlo Beach Hotel and opening a new gaming room on the ground floor of the Café de Paris.

SBM is now building a FF100m new thalassotherapy centre, due to open next June. It is also considering plans for a brand new luxury hotel on the Larvotto peninsula, which would have 300 rooms and, possibly, a small casino in a project costing between FF600m and FF700m.

Despite these investments SBM has not emerged unscathed from the economic recession of the past few years, although Mr Blanchet is convinced that the group would have fared even worse without them. SBM reported a fall in net profits to FF171m for the year to March 30 from FF229m in the previous year. Its audited accounts for the 1993/94 financial year are not yet available. However, Mr Blanchet confirmed that hotel occupancy fell slightly during the year as did gambling receipts.

One consolation is that the occupancy rate at the SBM hotels is still higher than those of other Monaco establishments at around 54 per cent against 48 per cent. Similarly, its occupancy levels have not fallen as far during the recession, which would appear to endorse its strategy of upgrading its interests to stay at the top of the market.

Moreover, Mr Blanchet says that business has picked up since the start of 1994 as the economic strains have eased.

"There's definitely been an improvement in trading since the start of this year," he says. "Hopefully we'll soon return to our normal level of activity. We also ought to reap the rewards of our recent investments. We've sown the seeds. Let's see how they grow."

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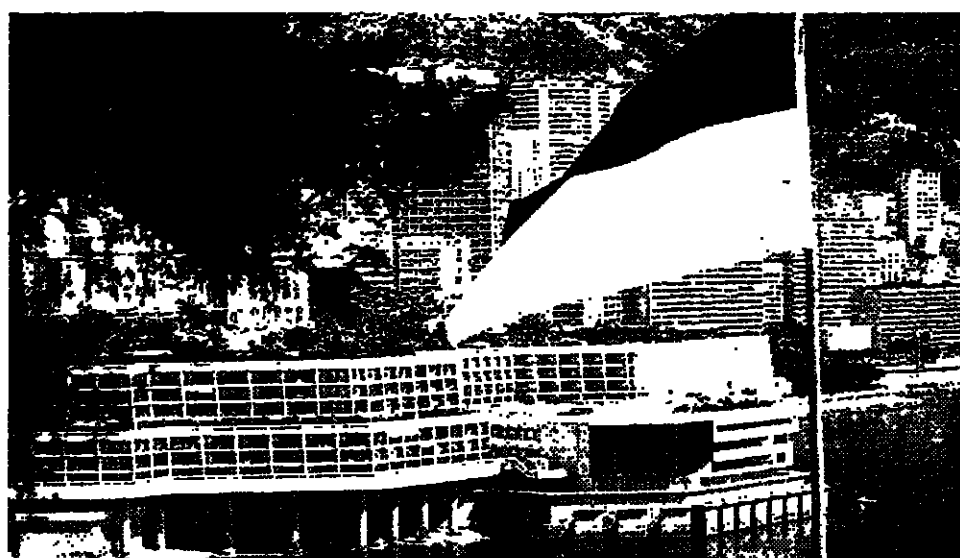
Only a few days ago a crowd of Flinstones fans crowded into the open-air cinema at Monte Carlo to watch Fred, Wilma, Barney and their fellow characters caper around in the movie version of The Flinstones; the smash hit at the US box office this summer.

The Flinstones - La Famille Pierrefeu, as they are called in France - has not yet opened for general release in Europe. It was screened as an *af fresco* preview in Monaco this weekend as part of a summer season of English language films at the open-air cinema. The special showing of The Flinstones is only one of the attractions with which the Monégasques hope to persuade more people to visit the principality at a time when the European tourist industry is emerging from the recession.

Monaco remained relatively resilient to the downturn in tourism until autumn 1992, when the combination of the chilly economic climate and the French franc's rise after the European currency crisis, triggered a steep decline in the number of visitors.

Last year the full effect of the downturn became apparent. The number of foreign tourists, which had been fairly stable at about 240,000 a year during the late 1980s and early 1990s, fell sharply. Monaco Government Tourism and Convention Office figures show a drop of just over 15 per cent to 203,206 in 1993, from 245,592 in 1992.

One difficulty was an acceleration of the fall in the number of French visitors, which had been in decline since the late 1980s. The French recession deepened last year, with a devastating effect on foreign



Conference centre: the C.C.A.M, one of the venues for business meetings in Monaco

Chilly economic climate and French franc's rise hits tourism

Talking business is a big industry

travel and leisure expenditure. As a result the number of French visitors to Monaco fell to 35,359 in 1993 from 41,352 in 1992. Tourism from the US, UK and Germany was also down during the year.

Yet the chief problem for the Monégasques was a dramatic downturn in the influx of visitors from neighbouring Italy, which had emerged as its single biggest source of tourism in the 1980s when it ousted France from pole position. The number of Italian visitors rose each year in succession from 43,169 in 1984 to peak at 86,097 in 1992. It plummeted to 67,727 in 1993.

"It's easy to see why Italian tourism was down so significantly," says Raoul Blanchet, chairman of Société des Bains de Mer (SBM), the largest leisure group in the principality, which owns the Monte Carlo Casino together with the Hôtel Hermitage and Hôtel de Paris. "There has been a great deal of political instability in Italy for the past two years. Then there was the anti-corruption drive and also the economic downturn culminating in the devaluation of the lire."

Yet the overall impact of the decline in the number of visitors has not been quite so damaging to the Monégasque economy (which depends on tourism for about a quarter of its gross domestic product) as the bald statistics suggest.

The most depressed area of the tourist industry has been the least lucrative - the day

trippers who pour across the borders from France and Italy. These casual visitors provide a useful source of revenue for the principality's cafés, souvenir shops, slot machines and tourist attractions. But their absence has little impact on the more profitable part of the tourist business - the luxury hotels, Michelin-starred restaurants, designer fashion shops and exclusive gaming rooms.

The official figures do not identify the total number of day trippers but they show that while the total number of visitors declined by 15 per cent to 203,206 from 245,592, the number of overnight stays fell at the lower rate of less than 13 per cent to 601,111 from 698,047.

Similarly, although the overall rate of hotel occupancy was 7.2 per cent lower at 49.3 per cent for 1993 against 55.5 per cent during the previous year, the upmarket SBM hotels maintained higher occupancy rates of just over 54 per cent, thanks to the patronage of their wealthy private clients and corporate customers.

One of the main reasons for the comparative strength of the upper end of the tourism industry is Monaco's success at establishing itself as a business conference centre. The principality only started to develop its conference activities in the 1970s. It opened the Centre des Congrès, its first important venue, in the late

1970s, followed later by the Centre de Rencontres Internationales.

Monaco now hosts large business conferences for the insurance and television industries, as well as for individual companies which use it as a location for internal meetings and promotional events (such as Elizabeth Arden's elaborate launch this spring of the new Karl Lagerfeld perfume, Sun Moon and Stars). The conference industry now accounts for almost a third of all Monaco's foreign visitors, against under one tenth in the early 1970s.

The focus of future investment is in conferences. The main project in the principality is the construction of the huge new Centre Culturel et d'Expositions, which will provide more conference and exhibition space, thereby enabling Monaco to host more than one big event at a time.

The opening of the new centre, originally scheduled for the end of this year but delayed due to construction problems until 1996, might also catalyse a new spurt of hotel construction.

The hotel sector has been relatively quiet since the openings four years ago of the Abela and the Métropole. There have been no important new hotels since then, although SBM does have one possible project: it is considering building a new 300-room luxury hotel on the Larvotto peninsula.

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The property market has fared better than those of its neighbours

Golden triangle's glitter dims

There is a villa for sale in Monaco, the Villa Fauvette, which boasts no fewer than six bedrooms, five bathrooms, balconies outside, marble floors inside, gardens and terraces all around with a sweet little summer house perched on its roof. The price is FF15m, or just under \$2.7m.

Villa Fauvette is a very special property. It is one of the handful of belle époque townhouses, or *hôtels particuliers* built in the late 19th century to house Monaco's wealthy residents and visitors, to have survived the principality's post-war building boom.

If a suitable buyer appears Villa Fauvette will be handed over intact. But the owners have another option. They could always sell the property to a developer who, thanks to the scarcity of land in Monaco, would probably be prepared to pay almost as much as the FF15m purchase price. Villa Fauvette would then become the latest in the long line of *belle époque* relics to be demolished to make way for yet another new apartment block.

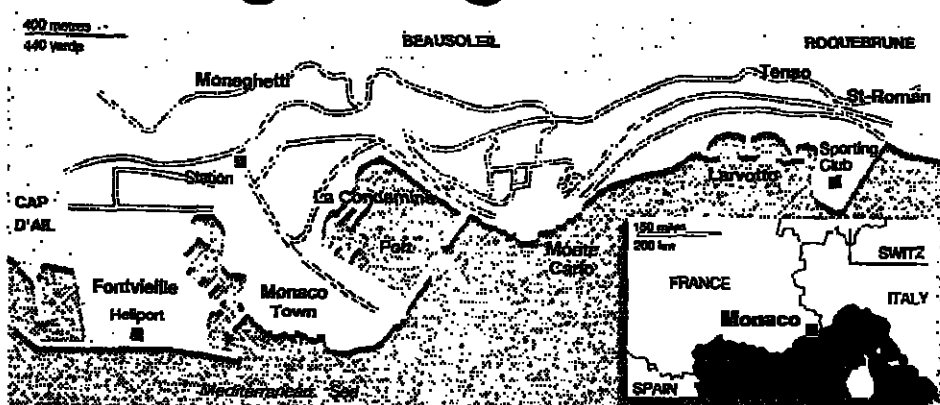
Anyone glancing at the dozens of "For Sale" and "To Let" signs festooned across the facades of Monaco's apartments, shops and offices could

The seeds of the property market were sown in the early 1970s

be forgiven for thinking that there was no shortage of property already on the market. The local property industry has been affected by the downturn that has depressed the European market in recent years. Yet the idiosyncratic nature of the Monégasque market - dominated by a small number of powerful property owners and a high proportion of rich, relatively recession-proof private clients - has enabled it to withstand the recession rather better than its counterparts in other countries, notably in neighbouring France and Italy.

The dearth of land, where sites for new development are so scarce that one of the biggest projects is the construction of a new underground railway station so that apartments can be built on top, has always ensured that there is strong demand for unusual properties on prime sites such as Villa Fauvette.

The seeds of the Monégasque property market were sown in the early 1970s by Prince Rainier and Gildo Pastor, the multimillionaire developer. They presided over a building boom that filled most of the principality's available sites



Concrete evidence: development sites in the principality are scarce

together with reclaimed land in the 1970s and 1980s. The price of Monégasque property escalated sharply with the cost of new apartments rising from around FF3,000 a square metre in 1971, according to industry estimates, to FF10,000 in 1980 and to FF70,000 at the market's peak in 1990. Prices in the golden triangle of Monte Carlo (in the area around the Casino and the Hôtel de Paris) rose even higher to anything between FF100,000 and FF125,000 a square metre, which made them probably comparable to the most expensive parts of Paris.

Prices have since weakened. "The Monaco property market

handful of solid, local investors notably the Pastor group (now run by Gildo Pastor's sons, Michel and Victor) and Société des Bains de Mer (SBM), the state-controlled hotel and casino operator. These companies have a long-term commitment to Monaco. It is scarcely in their interest to depress the market by dumping properties through panic selling. Further, they are exactly the type of large, well-established businesses that can afford a long-term approach to investment.

Similarly Monaco's wealthy residents have been spared the worst of the recession. Many

The upper end of the residential sector has remained robust

are affluent enough to have been able to hold on to their old properties, rather than risk selling them at low prices. Finally, the level of construction activity has slowed down, partly in response to the recession and partly because of the land shortage.

As a result the market has already responded to the easing of recessionary pressures in Europe. Local estate agents say that the price of new residential property has returned to around FF60,000 a square metre, just below its peak in the late 1980s.

"We've definitely seen an increase in demand for residential property in Monaco," says Betty Bloom, director of the SPA Property Agency, which specialises in the South of France and is the agent for Villa Fauvette. "There's tremendous interest from Italians, but also from Germans, the British and even from a few very rich Russians who have come on to the market."

The recent rise in Monégasque property prices reflects a general improvement across the Riviera, but the idiosyncrasies of the local market coupled with the particular attractions of the principality have ensured that the recovery was faster there.

"No-one ever mentions tax, but it's obviously a major factor in drawing people to Monaco," says Ms Bloom. "It's also a safe, clean and politically stable place to live. Monaco is more popular than other Riviera towns, even though you could buy a lovely property in a pretty part of Antibes for half the price you'd pay in Monaco."

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Driving in and around Monaco is a treat in itself

Mediterranean rendezvous

One of the nicest things about Monaco is its location: clinging to a cliff on the picturesque Mediterranean with the Italian coast to the east and the French Riviera to the west.

The idea of being able to drive over the border for dinner in a foreign country is always appealing. Nice, Cannes and Genoa are all within easy reach. But if you tire of the glitz and gloss of Monte Carlo, there is also the option of visiting some of the smaller towns and villages along the Côte d'Azur and inland in rural Provence.

Driving in and around Monaco is a treat in itself thanks to the spectacular views offered from the *corniches*, or coastal roads, which run through the principality from Nice to Menton. There are three *corniches* - high, medium and low depending on the height at which they perch on the cliffsides. All three are familiar settings from car commercials and Côte d'Azur movie car chases.

Roquebrune is the first place you come to when leaving Monaco on the western *corniche*. It is a 15th century village built around an 11th century castle complete with a mock medieval tower added by an eccentric English owner in the 1920s. The village has been colonised by souvenir shops and is now something of a tourist trap, although the charm of its narrow alleys and stairways is still apparent when the shops close down at night.

The coastline to the west of Roquebrune is accessible only by foot and offers a stunning shoreline walk past the white rocks and pine trees of Cap Martin. The path is called Le Corbusier after the famous modernist architect who drowned there in the mid-1960s while staying at a house owned by the Anglo-Irish designer, Eileen Gray.

The next stop after Cap Martin is Menton, the sunny seaside town nestled in mountains and lemon groves which is, in many ways, a more subdued version of Monaco. Menton and Roquebrune both belonged to Monaco until the mid-19th century when they

Nice, Cannes and Genoa are all within easy reach of Monte Carlo

declared their independence. The then Prince of Monaco was stoned on the streets when he came to reclaim them and later sold them off to France for FF1m.

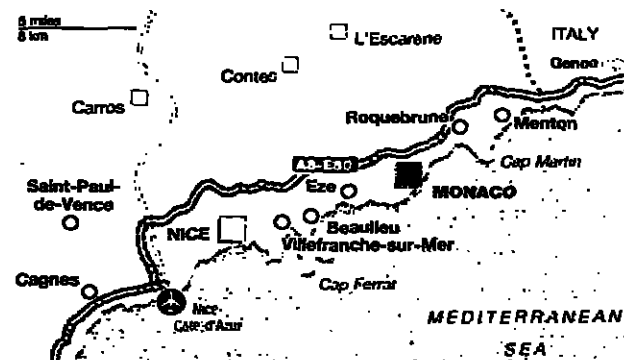
Menton, like Monaco, has an Italianate *vieille ville*, or old town, with candy-coloured houses and pretty little chapels. It also sports one of the most sought-after *Salle des Mariages*, or register offices, in France (tel: 9357 8787) decorated by Jean Cocteau, the surrealist artist. Cocteau not only filled the walls with friezes of love stories - from a Saracen wedding party, to Orpheus and Eurydice - but even carpeted the floor with a mock-panther skin.

Cocteau also created his own museum for Menton, the Musée Jean Cocteau (tel: 9357 7230), which lies between the *vieille ville* and the old port. It houses a fine collection of his drawings, paintings, writing, stage and film sets.

The *corniches* to the east of Monaco are also well worth exploring. The hilltop village of Eze looks wonderful from a distance, with its medieval houses and churches winding around the natural fortress of its hill. But on closer inspection it is even kitschier than Roquebrune



There are spectacular views from the corniches in and around Monaco



with a clutter of souvenir shops and overpriced antique dealers.

Beaune, the next town along the coast, has the same sleepy air as Menton. Its main attractions are the recently renovated Art Deco casino and the idiosyncratic Villa Kérylos, a replica of a classical Greek villa built in the early years of this century for Théodore Reinach, an archaeologist who lived there for 20 years in the same style and dress as an

ancient Athenian.

The other coastline folly is Fondation Ephrussi de Rothschild (tel: 9301 3399) which perches high above the *nouveau riche* holiday homes of Cap Ferrat to house the collections of art and furniture hoarded by the eponymous Baroness de Rothschild. The baroness, like Théodore Reinach, had a penchant for ancient Greece. Her pastel pink villa is cluttered with classical columns, as well as vestiges of

almost every period from Tiepolo frescoes, to Louis XIV furniture and a tiny lover's room tucked away on the ground floor.

Jean Cocteau crops up again in Villefranche-sur-Mer, yet another picturesque fishing village to have fallen victim to souvenir shops and tourist traps. But Villefranche does boast the Chapelle Saint-Pierre, a tiny 14th century seafarer chapel where Cocteau covered the interior walls with abstract fantasies of Saint Peter frolicking with the Camargue gypsies.

Nice itself is filled with museums and restaurants. The nearby town of Cannes is now a jumble of modern villas but was once the home of the painter, Pierre-Auguste Renoir. His house has been turned into a museum, the Musée Renoir (tel: 9320 8107), which contains his old studio as well as some of the paintings he did there and pieces by friends, such as Bonnard and Dufy.

Then there is Saint-Paul-de-Vence, another pretty Provencal hill village transmogrified into a tourist trap, where the Fondation Maeght (tel: 9332 8183) offers one of the best collections of modern art in southern France with works by Giacometti, Arp and Miró. The foundation, which was created by a family of Paris art dealers, also stages temporary shows the latest of which is a Georges Braque exhibition that runs until the autumn.

The last port of call before a longish drive back to Monaco could be La Colombe d'Or (tel: 9332 8002), the Saint-Paul restaurant run by the Roux family since the 1920s where local artists paid for their meals with their work. Luckily for the Roux the "locals" included Picasso, Braque, Chagall and Miro not to mention Fernand Léger, whose frieze decks the restaurant terrace, and Alexander Calder, who made a mobile to bob above the swimming pool.

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MONACO 4

Christie's, the celebrated London auction house, always knew that last winter's sale in Monte Carlo of the contents of a Parisian apartment owned by Hubert de Givenchy, the French fashion designer, would be a rather special event: but it did not realise quite how special until after the auction was over.

Givenchy had shown the same fastidious taste in furnishing his apartment as in creating his *haute couture*. His rue de Grenelle apartment had contained some exquisite examples of French painting and furnishings, including the famous Hanover chandelier, a stunning piece in sterling silver.

Christie's had calculated that the sale of his collection should raise between FF100m and FF110m. Yet the auction itself achieved a total of FF155m - which included a successful bid of FF18m for the Hanover chandelier alone.

For Humphrey Butler, head of Christie's in France, the Givenchy auction was a prime example of the very best type of Monegasque sale. "There's a glamour associated with Monte Carlo which is absolutely ideal for the auction of a very special private collection such as Hubert de Givenchy's," he says. "It's the sort of collection that probably sells better in Monaco than anywhere else."

Monte Carlo is still something of a newcomer to the art market, at least compared to the old-established centres such as London, Geneva and New York. The first big sale in the principality was staged in 1975 by Sotheby's, chief competitor of Christie's, when it auctioned off the Dédé de Rothschild collection. That auction and subsequent sales were so successful that Monte Carlo has since become a landmark on the international art dealing scene.

The merits of Monaco as an auction centre are easy to see. The location, only a 15 minute helicopter ride away from Nice's busy international airport, makes it easy for international dealers to fly into the principality for special events. Sotheby's



A very special event: the Givenchy auction was a prime example of the best type of Monegasque sale

The principality has become an international landmark for art sales

Newcomer finds its niche

and Christie's even ensure that they hold their six monthly sales fairly close together in June and December to maximise attendance by foreign dealers.

Monte Carlo also offers the added *frisson* of a sprinkling of self-indulgent local residents, and people driving over the borders from France and Italy.

Yet the main reason for Monaco's metamorphosis into an auction centre is the idiosyncratic nature of the French art market, which is so tightly restricted by anachronistic legislation that it is almost

impossible for leading international auctioneers such as Sotheby's and Christie's to hold important sales in France.

France is the home of some of the world's finest art collections. French painting and antique furniture is highly sought after by wealthy collectors in other countries, notably in the US and Japan. Yet for decades the market has been hidebound by stiff export restrictions which make it very difficult for Sotheby's, Christie's or their international rivals to transport works out of France to auction them in

London, New York, Tokyo or Geneva.

The French government is empowered to stop any piece from leaving the country for foreign auction by buying it at the minimum reserve price - usually much lower than the "hammer" price at which the auctioneer will actually sell it. (If the piece is sold in France, the government must buy it at the hammer price.)

However, the controls over the French market are so tight - the only people allowed to practise as auctioneers are the small band of *commissaires priseurs*, who

are licensed by the justice ministry and can only apply for a licence when an existing *commissaire* relinquishes one - that Sotheby's and Christie's cannot operate in France. At the same time, the archaic nature of the *commissaire* system means that the auction market is highly fragmented and that individual auctioneers do not have the resources to stage and market international sales on the same scale as Sotheby's or Christie's.

This state of affairs continued until 1975, when Peter Wilson, then chairman of Sotheby's in France, decided to exploit a loophole whereby works could be auctioned in Monaco free from the usual restrictions on foreign sales. In other words, the French government is obliged to pay the full hammer price, rather than the minimum reserve, if it seeks to stop French works leaving the principality.

Monte Carlo has since become renowned for its sales of old master paintings, antique French furniture and for other Gallic decorative specialties such as Art Deco and Art Nouveau. It has also hosted a series of high profile sales, including Sotheby's auction of the Florence Gould and Claud Cartier collections, the Christie's sales of Sir Charles Clow's furniture and its auction last month of the contents of the Cap d'Antibes house owned by Margaret Biddle, the wealthy American who was a leader of the Riviera social scene in the 1940s.

The nature of the Monaco market means that it has been relatively robust during the recession of the late 1980s and early 1990s. The only area of the market to have suffered is classic cars, which became a Monegasque specialty in the 1980s (thanks to the principality's motor racing tradition) but fizzled out in the economically depressed early 1990s.

Christie's and Sotheby's achieved well over their original estimates in last month's Monte Carlo art auctions. The prize of the Sotheby's sale - a pair of 18th century black lacquer corner cabinets by

Bernard Van Risamburgh - was sold for FF15.45m, against an estimate of FF15m.

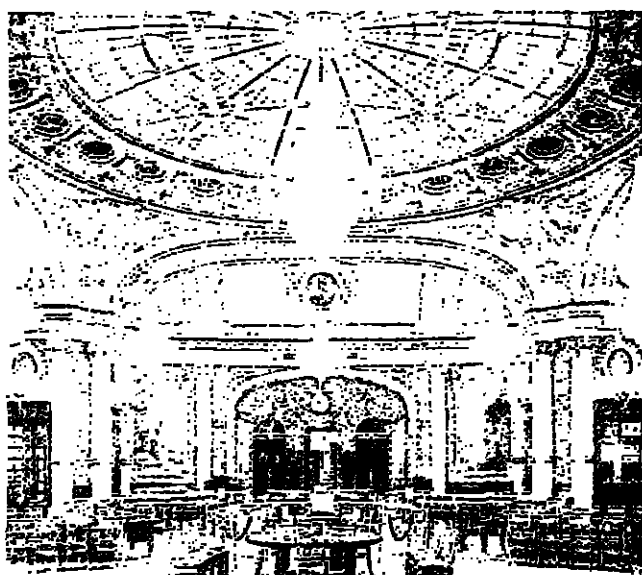
The biggest threat to the Monegasque auction scene is not the economic environment, but the forthcoming reforms of the French art market. In theory, the French should have liberalised their arcane auctioneering system with the onset of the single European market at the end of 1992. But in practice, although proposals for change have been tabled, the system has remained intact.

Yet even the most conservative *commissaires* accept that change is inevitable. Jacques Toubon, the centre-right arts minister, has already put forward a concrete plan for reform. "The inflexibility of the art market will soon be no more than a bad memory," began a recent article in *La Tribune Desossés*, the French financial daily.

Liberalisation of the French market is almost certain to prompt the international houses to switch some of their Monaco auctions to Paris. Sotheby's and Christie's are already planning to do so. At the same time the French *commissaires* have developed plans to band together in order to compete more effectively against the London and New York houses.

Monte Carlo offers the added frisson of a sprinkling of self-indulgent local residents

Yet Christie's Humphrey Butler is still convinced that there will be a role for Monaco on the auctioneering scene. "I doubt very much that as soon as the Paris market opens, we'll move everything there and close down in Monaco," he says. "Monte Carlo serves a very particular purpose in the art market. We may well have decided to hold a special sale like the Givenchy there even if Paris was open to us. After all, we're all susceptible to glamour."



The Salle Europe in the Casino merits a visit for its aesthetic excesses

Monaco is really little more than a smallish seaside city. Prince Rainier rules over a country that stretches across three kilometres of rugged, Mediterranean cliff but is still one of the most popular destinations on the Côte d'Azur.

The principality is divided into four areas. Monaco Ville, the original heart of Monaco, is the political centre as the home of the *vielle ville*, the old town, and the Grimaldis' candy-coloured palace. Monte Carlo is much younger. It was a scrappy olive and lemon grove until the mid-19th century when Prince Charles III, one of Prince Rainier's more imaginative ancestors, built the famous casino and luxury hotels there.

Most of Monaco's foreign residents live in the jungle of modern apartment blocks

flung up in La Condamine, the flat area lying between the more picturesque hills of Monte Carlo and Monaco Ville. The Monegasques themselves occupy the cheaper housing that has been built in Fontvieille, the strip of land to the south of Monaco Ville which was reclaimed from the sea in the 1970s and now houses a small industrial zone.

Yet to most people Monaco is synonymous with the *belle époque* glitz of Monte Carlo. Nothing sums it up better than the Casino (tel: 9216 2121), an extraordinary edifice designed by Charles Garnier, architect

Visitor's guide to the principality

Like nowhere else on earth

of the Paris-Opéra. The Casino merits a visit for its aesthetic excesses - from the Bohemian crystal chandeliers in the Salle Europe which weigh more than 150 kilos, to the scantily clad women in the Galleli fresco on the ceiling of the smoking room whose eyes are said to follow the visitor around the room - even if you do not plan to risk frittering away your francs on the roulette wheels or slot machines.

No superstitious gambler should go into the Casino without first wishing themselves luck by stroking the knee of the bronze horse bearing

Louis XIV in the statue outside the Hôtel de Paris (tel: 9216 3000). The hotel is almost as elaborate as the Casino with an extraordinary bar where Monaco's Chanel-clad residents knock back cocktails during afternoon piano sessions. It is also the home of the Louis XV (tel: 9216 3004), one of the few restaurants on the Côte d'Azur to boast three Michelin stars thanks to the talent of Alain Ducasse, its young chef. Donald Trump was so impressed with Ducasse's culinary skills that he once flew him over to Manhattan to cook a family meal.

Anyone whose budget does not quite run to a meal at the Louis XV - let alone to Concord tickets for the chef - can dabble in the Trump lifestyle by window shopping at Chanel, Valentino, Cartier, Van Cleef & Arpels or any of the other expensive shops around Place du Casino and along Boulevard des Moulins. They can also stroll around the Casino gardens to gawp at the stunning sea views or at the work of César, the French sculptor who is the subject of the latest summer exhibition.

There are more gardens to see in Monaco Ville, where the cliff tops have been covered with Aleppo pines, agaves, and aloes to offer spectacular views across the Mediterranean cliffs. The narrow streets of the *vielle ville* still offer an occasional glimpse of the sleepy charm of medieval Monaco, but most of the old town is a commercialised clutter of souvenir shops selling Prince Rainier mugs and Casino tea-towels.

The Grimaldis' Palace (tel: 9325 1831) looks like a souvenir in itself with its pastel pink walls and comic book battlements. The ceremonial changing of the guard, which takes place just before noon each day, completes the picture with the soldiers sporting black uniforms in winter and white in summer. Day after day the Place du Palais is packed with tourists waiting to see the soldiers or hoping for a glimpse of Prince Rainier, Princess Caroline and the other Grimaldis.

The *vielle ville* is also the home of Monaco's two most interesting museums. The Musée des Souvenirs Napoléon (tel: 9325 1831) in the southern wing of the palace is a treasure trove of Napoleonic memorabilia with more than 1,000

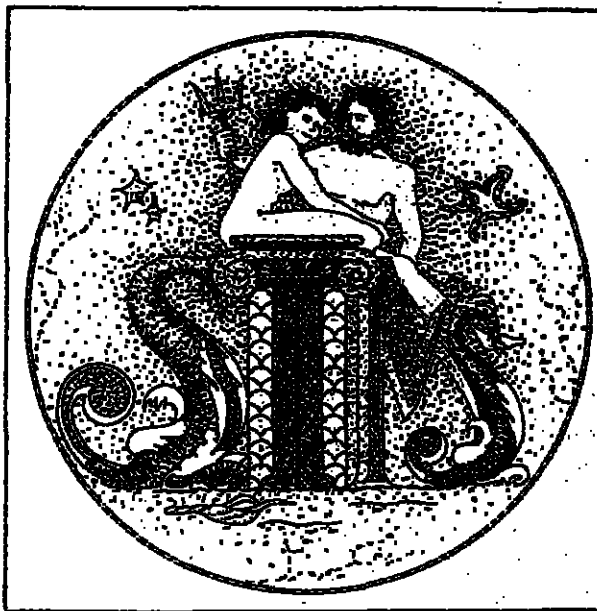
of his documents and objects ranging from his socks and handkerchiefs to medals and weapons.

But the principality's main museological asset is Musée Océanographique (tel: 9315 3600), which was built in 1910 at the behest of Prince Albert I and has since established itself as an important centre for scientific research and one of Europe's best aquariums. It contains some 90 tanks of rare fish from all over the world with stunning colours and shapes. It also houses Prince Albert I's own collection of marine fauna and stuffed sea creatures (including a 20-metre whale) together with models of his laboratory ships.

The other academic curiosity in Monaco is the *Jardin Exotique* (tel: 9303 3385) high on the rocks above the principality. The gardens, which were founded in 1933, now encompass more than 7,000 different types of succulent plants including surreal cacti from central and southern America and giant African Euphorbia. Tucked beneath the gardens is another surreal scene in the Prehistoric Observatory Caves with their stalagmites and stalactites.

Finally, one of Monaco's main claims to fame and a fierce point of local pride is AS Monaco, the football club which is widely regarded as one of the most successful in France. AS Monaco has, like other European clubs, branched its cheque book to sign a number of imported players over the years, including Mark Halsey and Glen Hoddle.

Similarly, no expense has been spared on its state-of-the-art stadium at Fontvieille. The head of one foreign bank remembers seeing a visiting director from his London head office to see AS Monaco. "All he talked about after the match was the escalators that carry the supporters up to the terraces," recalls the banker. "It was the escalators that made him realise Monaco really isn't like anywhere else!"



The logo for the new thalassotherapy complex

Thalassotherapy complex rises again

Healing waters of Monte Carlo

In the grand old Edwardian era when the cream of European high society whiled away their summers in Monte Carlo, they spent each morning washing away their worries about the previous night's amorous adventures or gambling losses in the healing waters of the Sea Water Thermal Baths.

The thermal baths were a Monegasque institution which opened in 1908 after Prince Albert I had noted the success of the sea baths at Roscoff in Brittany.

They soon became a fashionable place where wealthy bathers could indulge in the ancient practice of thalassotherapy, a form of healing that exploits the soothing properties of exposure to warm water extracted from the sea.

The original baths were destroyed by a stray German bomb which fell on Monte Carlo by accident at the beginning of the second world war. The debris was cleared and the old baths became the site of a swimming pool for the Hôtel de Paris and Hôtel Hermitage. That pool has now been closed while the Société des Bains de Mer, the owner of the old thermal baths, builds a brand new FF100m version.

Monte Carlo's new seawater baths will point on the same thalassotherapeutic principles as the original, whereby the body is exposed to sea water that has been pumped from a

depth of 30 metres and heated to around 36 degrees.

The temperature ensures that the microorganisms in the water, the phytoplankton and zooplankton, stay alive to secrete antibiotic bacteria and hormones with healing properties.

But the new baths, due to open next June, will be much more sophisticated than the old ones.

The new complex will include two sea water swimming pools together with seaweed cabins, sea water jet showers and a number of "dry" treatment facilities such as massage rooms and a gymnasium.

The complex has been designed by Dr Yves Treguer, one of France's leading cardiology specialists and the man behind the successful Thalassotherapy Centre at La Baule in western France.

He hopes to appeal to both people with medical conditions and to "lay" bathers who simply need a relaxing respite from their stressed-out lives.

Société des Bains de Mer, which has been struck by the recent revival of interest in thalassotherapy, hopes that its new Sea Water Thermal Baths will enable it to challenge the established centres at La Baule, Biarritz and Saint Malo just as the old baths helped Monte Carlo to rival Roscoff in the early years of the century.

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